

# Arizona State Retirement System Board



## US Equity MidCap Asset Class

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December 16, 2005

# Presentation Topics

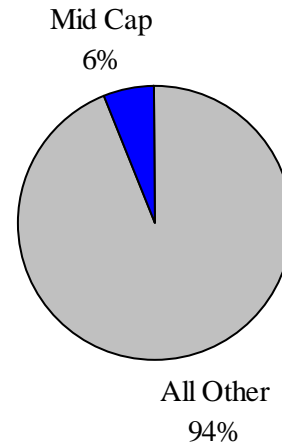
- Mid Cap Manager Reviews (aggregate)
  - Asset Class Snapshot
  - Mandates Overview
  - Excess Returns
  - Value Added in Dollars
  - ASRS MidCap Equity Asset Class vs. S&P 400
  - Style Analysis
- Mid Cap Manager Reviews (individual)
  - Performance Analysis
  - Attribution Analysis
  - Style Analysis
  - Organizational Issues
  - Assessment

# ASRS US Equity MidCap Asset Class

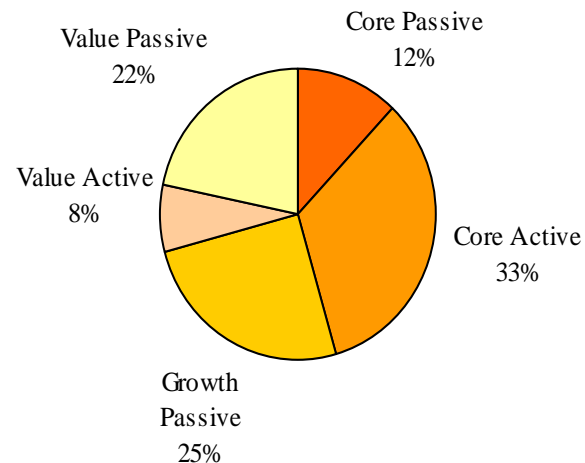
## October 31, 2005

- Market Value: \$1.3b
- Passive Percent: 59%
  - Target 45%  $\pm$ 20%
- Active Style Composition:
  - Core: 81%
  - Growth: 0%
  - Value: 19%
- Portfolios:
  - 3 Passive
  - 3 Active:
    - Quantitative: 1
    - Fundamental: 2
- Average Fee: 16 bp

**Total Fund**  
\$22.5 billion



### Style Composition



# ASRS US Equity MidCap Managers

## Mandates

Manager	Style	Benchmark	Inception	Fee (bp)	Expected Alpha (bp)	Portfolio Assets (\$mil) <sup>1</sup>	Strategy Assets (\$mil) <sup>2</sup>
<b>Active</b>							
Franklin	Core	S&P 400	6/30/02	24	220	309.6	2,882
Wellington	Core	S&P 400	6/30/02	56	300	141.4	7,501
CRM	Value	S&P 400 Val	12/31/03	54	300	102.1	3,727
<b>Passive</b>							
SSgA	Core	S&P 400	1/31/00	3	0	160.9	4,488
E3	Growth	S&P 400 Gr	11/30/00	1	10	340.5	---
E4	Value	S&P 400 Val	6/30/02	1	10	291.1	---

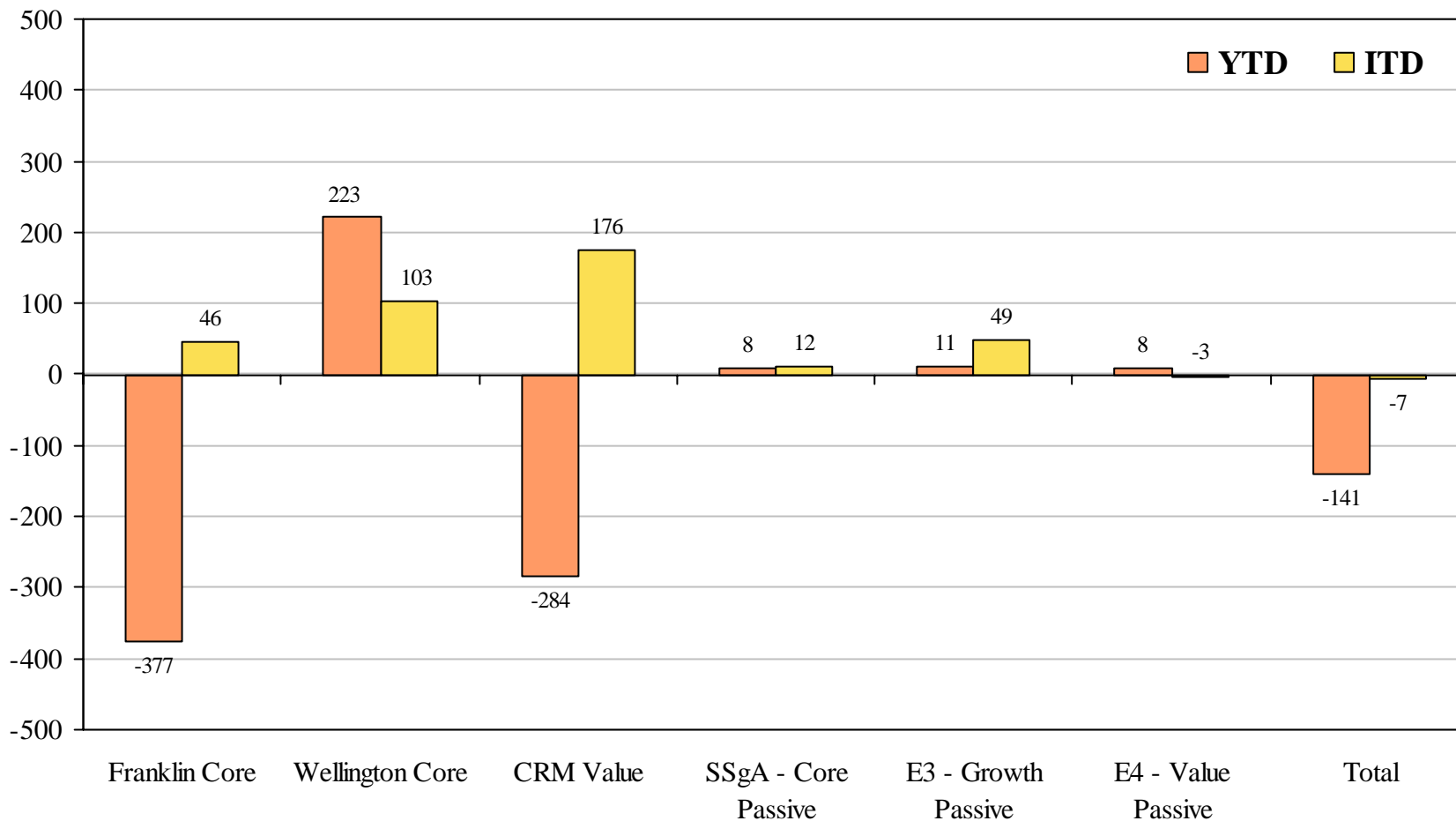
<sup>1</sup> As of October 30, 2005

<sup>2</sup> As of September 30, 2005

# ASRS US Equity MidCap Managers

## Excess Returns

### Period Ending October 31, 2005

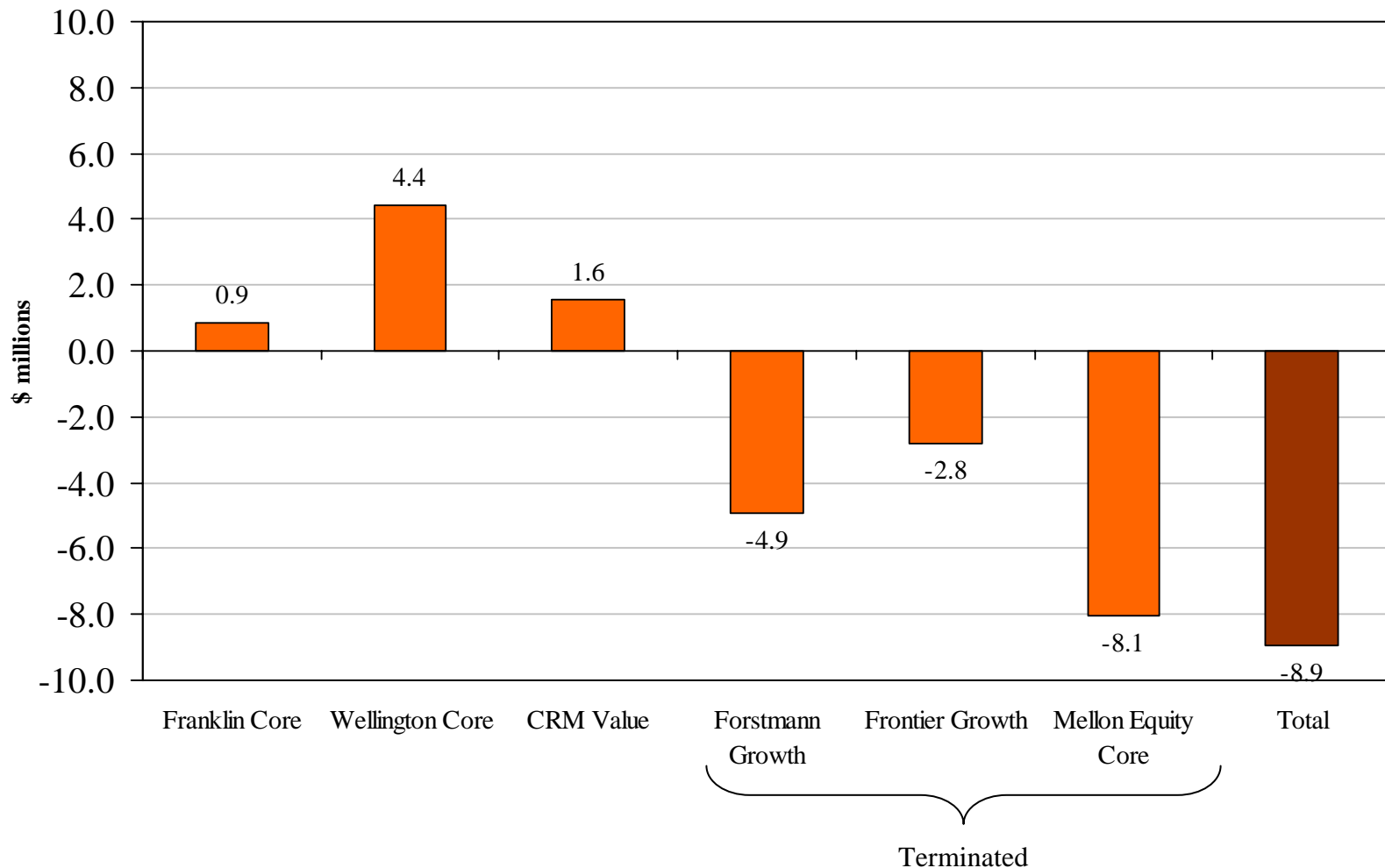


MidCap asset class inception date: June 30, 2002  
Excess returns are net of fees

# ASRS US Equity MidCap Active Managers

## Value Added in Dollars

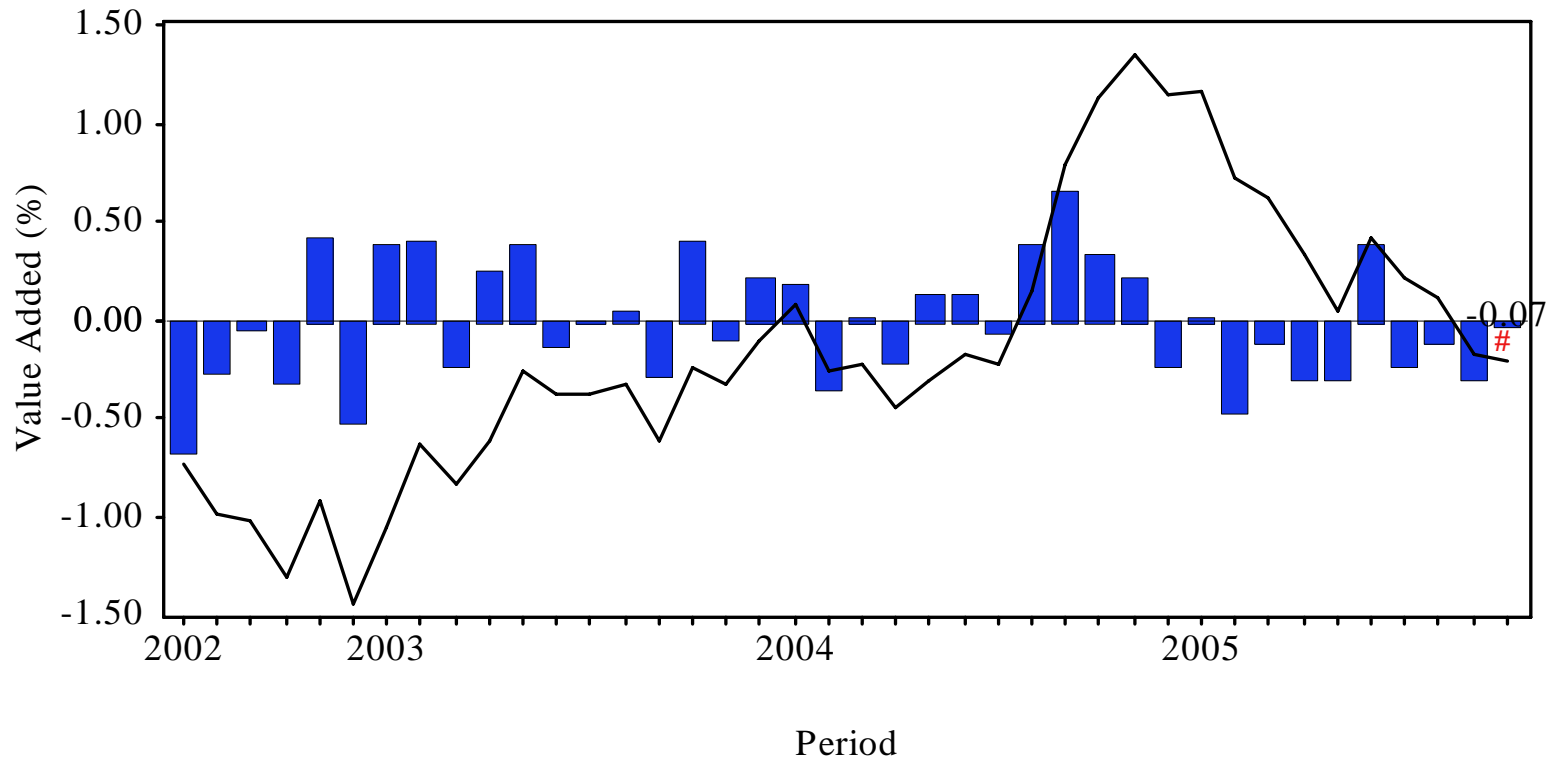
5 Year Period Ending October 31, 2005



# ASRS US Equity MidCap Asset Class

## Value Added Relative to S&P 400

July 2002 to October 2005



■ Annualized since 7-2002      ■ Cumulative Value Added      ■ Value Added

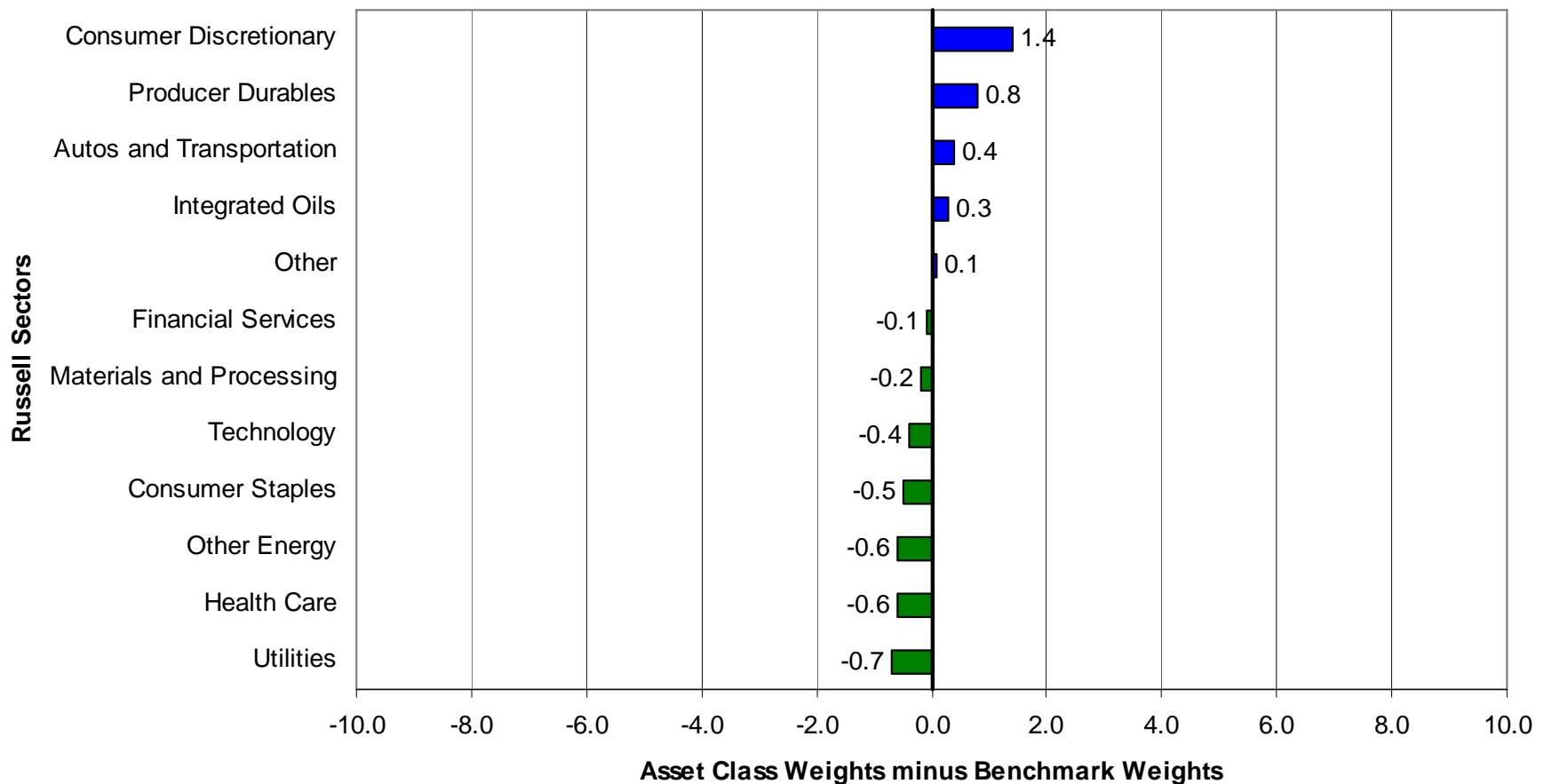
Monthly Returns

Preliminary

# ASRS US Equity MidCap Asset Class

## Style Analysis: Economic Sectors

As of September 30, 2005

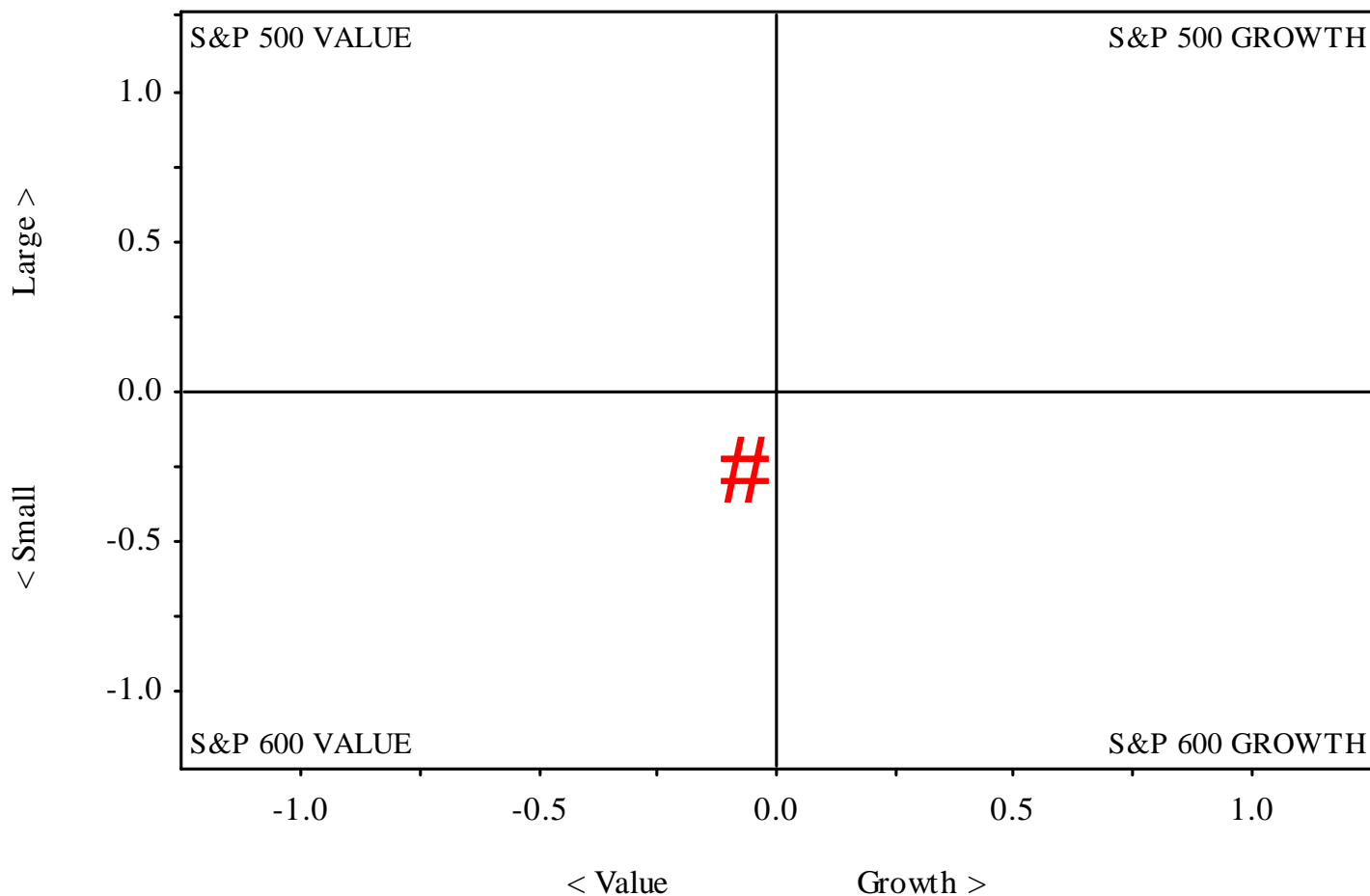


Reflects all passive and active portfolio

# ASRS US Equity MidCap Asset Class

## Style Analysis

July 2002 to October 2005

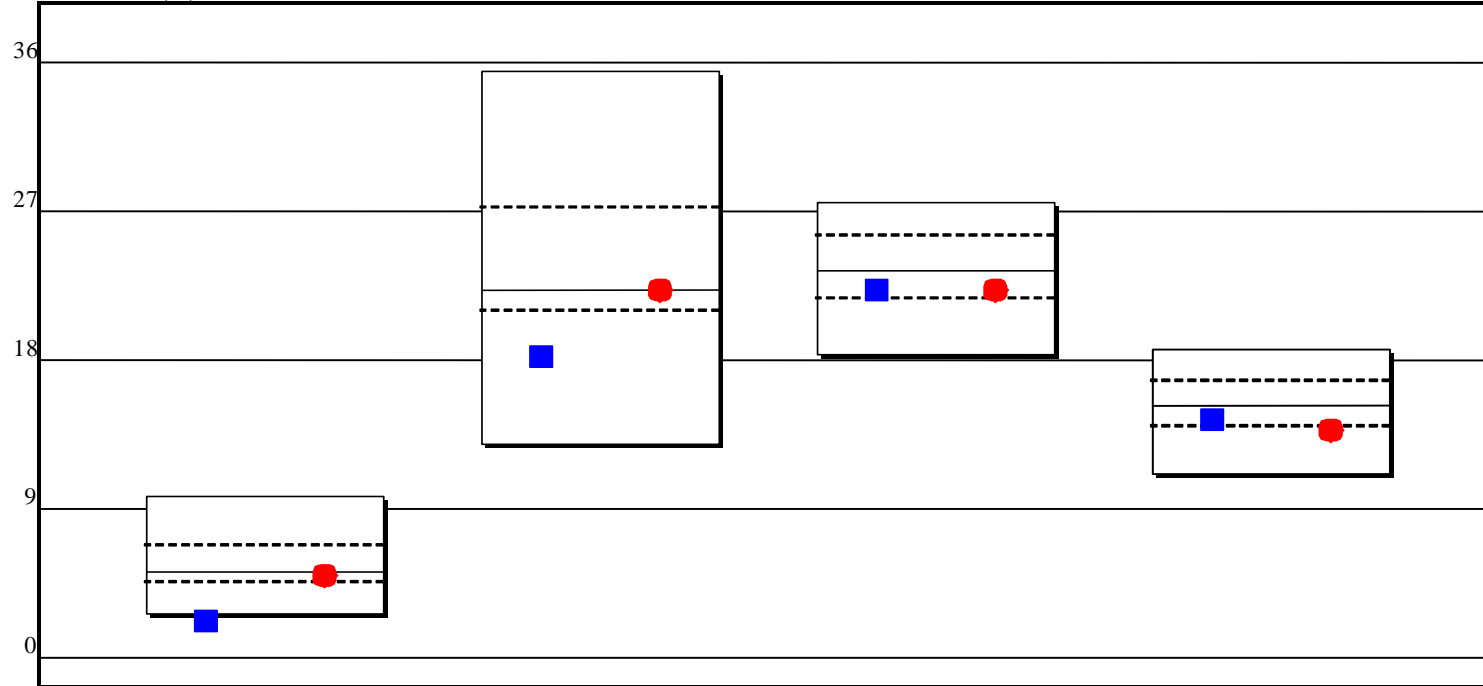


# Franklin Portfolio Associates

## Comparison with the Mercer US Equity Mid Cap Core Universe

### Performance for periods ended September 2005

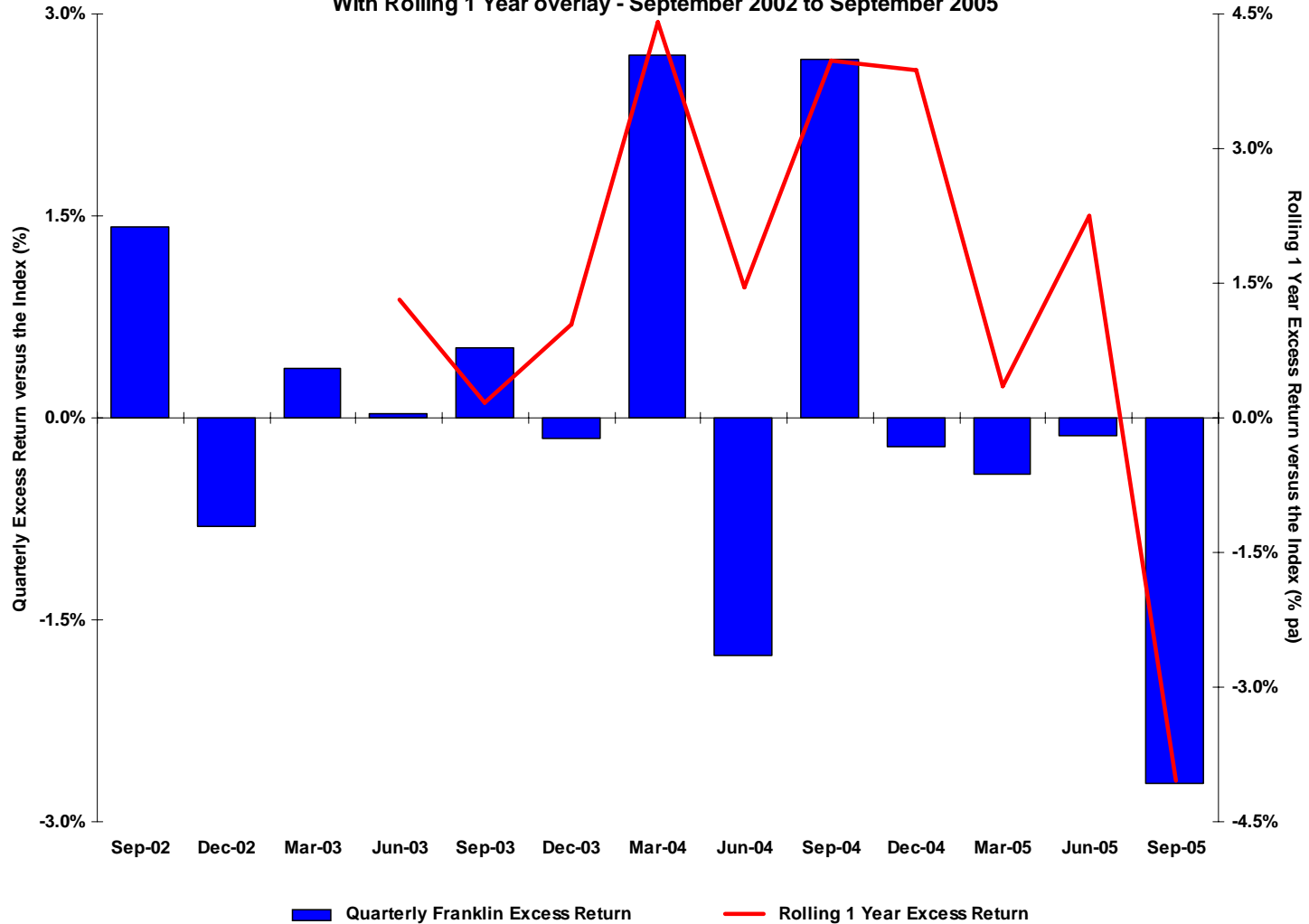
Rates of Return(%)



	1 Quarter (%)	1 Year (%)	3 Years (%pa)	Inception (6/30/02)
Franklin	2.2 (95)	18.1 (89)	22.2 (68)	14.4 (63)
S&PMID	4.9	22.2	22.1	13.8
5th Percentile	9.7	35.4	27.5	18.6
Upper Quartile	6.7	27.2	25.5	16.7
Median	5.2	22.1	23.4	15.2
Lower Quartile	4.5	20.9	21.7	13.9
95th Percentile	2.6	12.9	18.3	11.1
Number of Funds	54	51	45	44

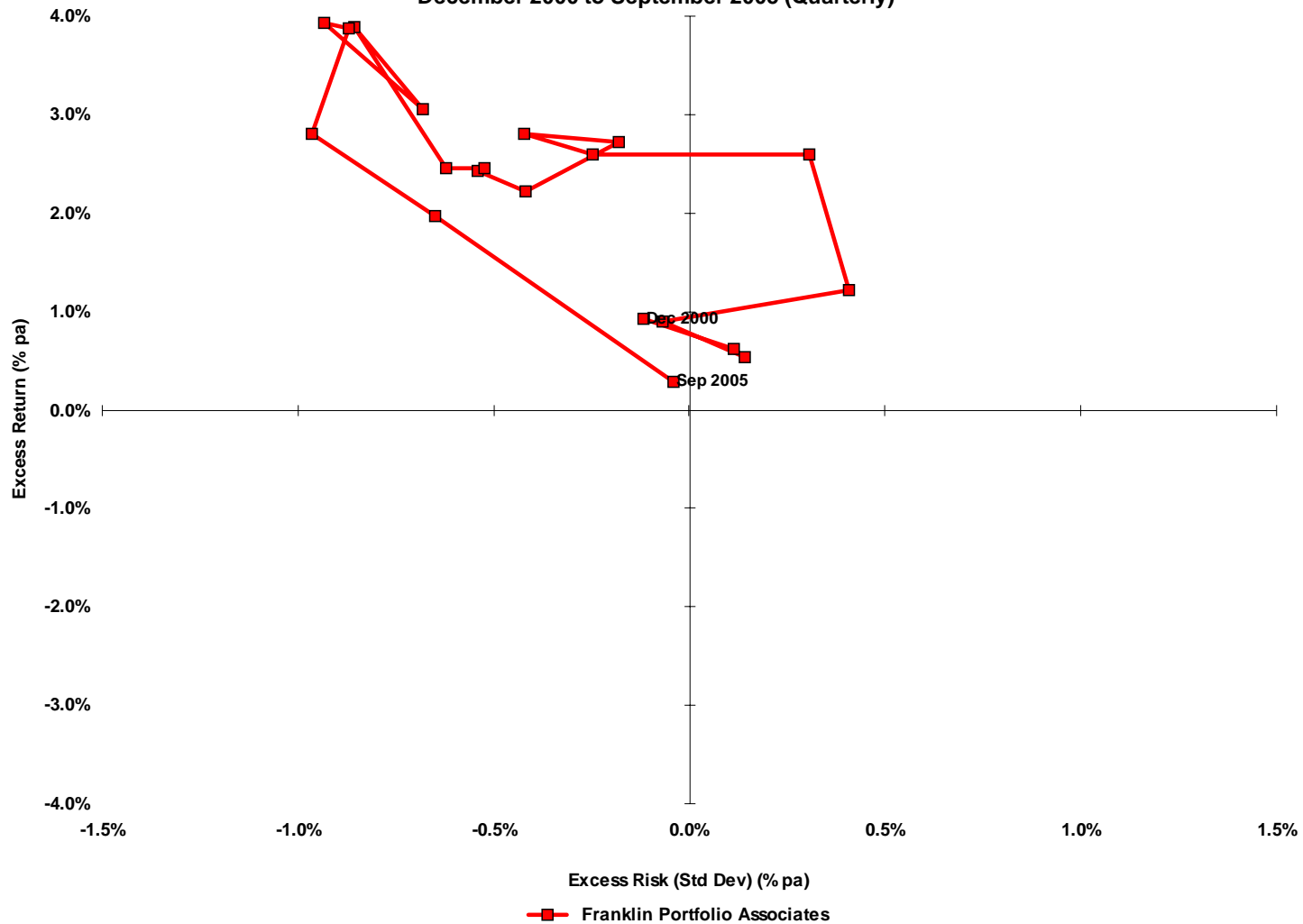
# Franklin Portfolio Associates

Quarterly Excess Return for Franklin versus the S&P Midcap 400  
With Rolling 1 Year overlay - September 2002 to September 2005



# Franklin Portfolio Associates

Rolling 3 Year Risk / Return versus the S&P Midcap 400  
December 2000 to September 2005 (Quarterly)

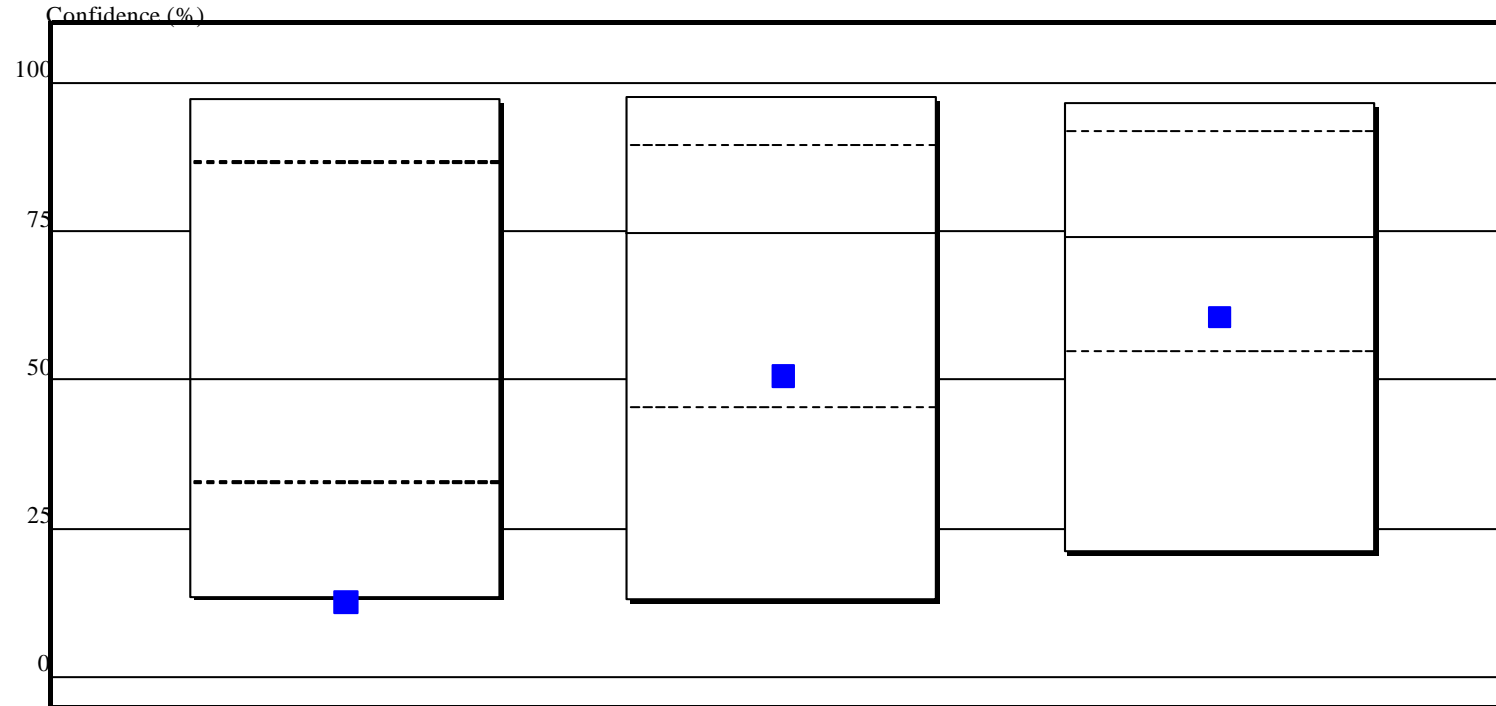


Composite data shown

# Franklin Portfolio Associates

## Comparison with the Mercer US Equity Mid Cap Core Universe

### Confidence of Value Added for periods ended September 2005



	1 Year	3 Years	Inception (6/30/02)
Franklin	12.7 (96)	50.6 (70)	60.5 (69)
5th Percentile	97.1	97.5	96.4
Upper Quartile	86.3	89.3	91.6
Median	50.3	74.4	74.0
Lower Quartile	32.4	45.1	54.6
95th Percentile	13.1	12.8	21.0
Number of Funds	51	45	44

# Franklin Portfolio Associates

## Attribution Analysis

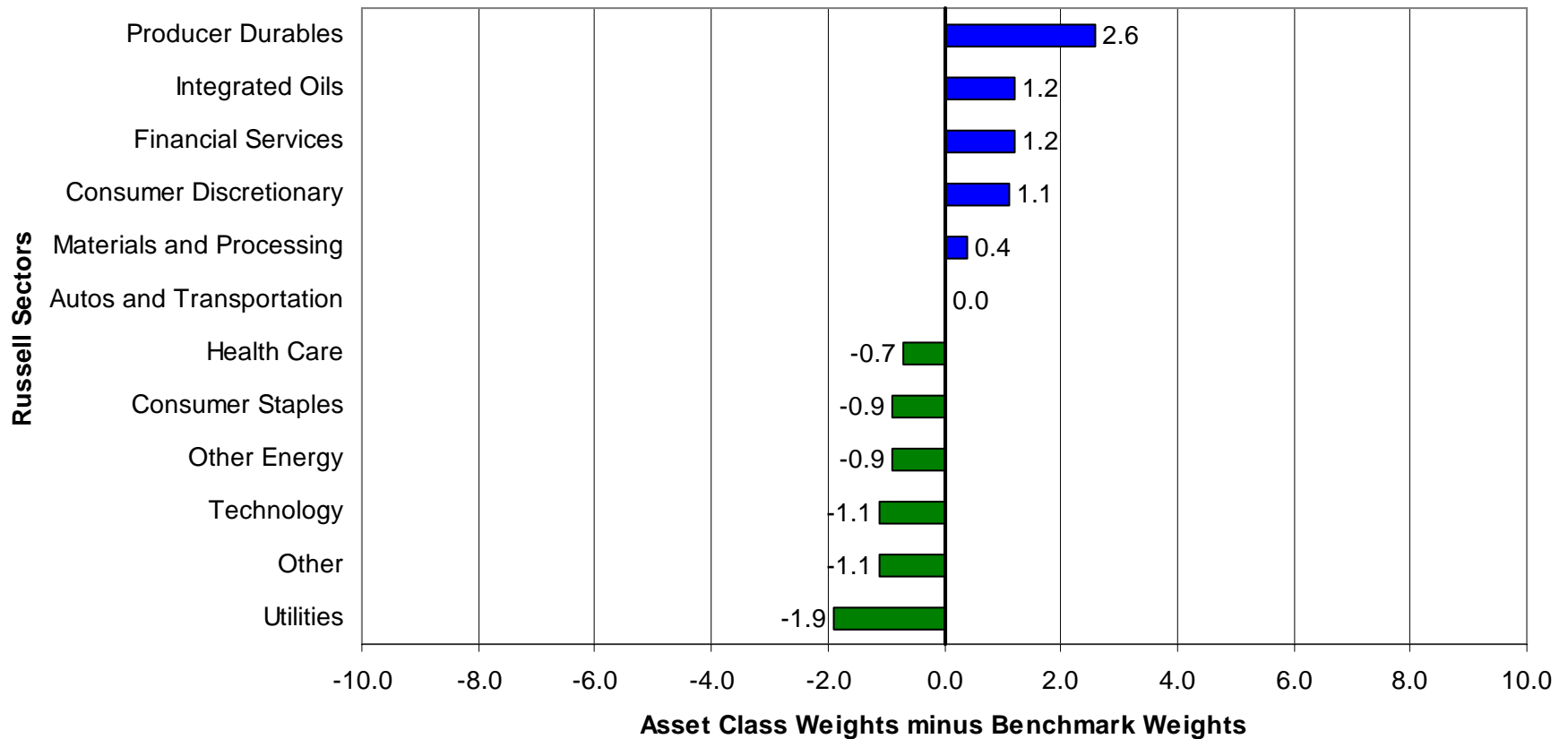
Period Ending September 30, 2005

	Quarter	1 Year	3 Years	5 Years	Inception
Stock Selection	-256	-370	-12	---	16
Sector Selection	32	67	46	---	49
Other	-46	-87	-8	---	15
Fees	-2	-11	-20	---	-18
Excess Return	-272	-401	6	---	62

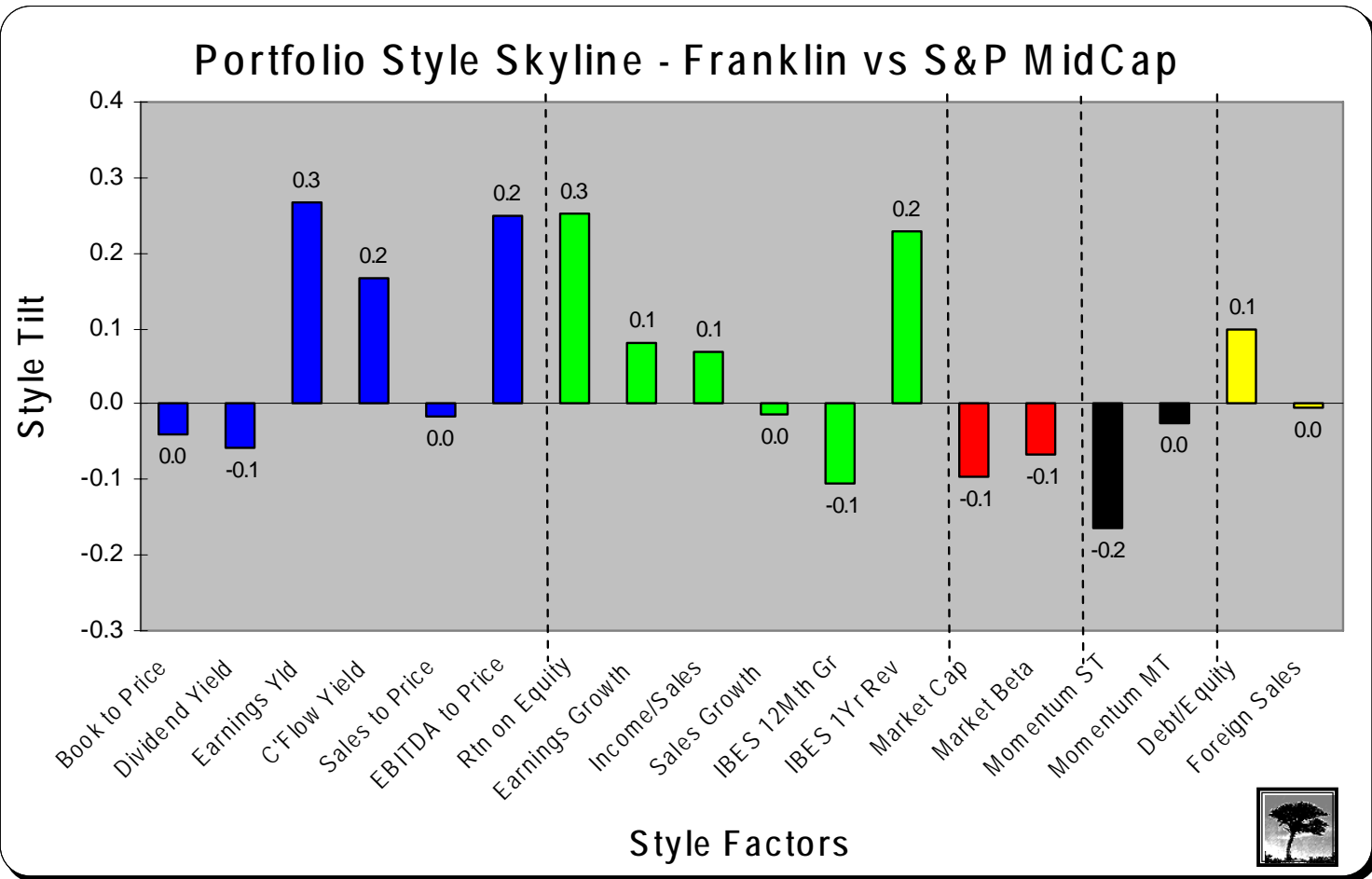
# Franklin Portfolio Associates

## Style Analysis: Economic Sectors

As of September 30, 2005



# Franklin Portfolio Associates



# Franklin Portfolio Associates

- No organization concerns at this time.

# Franklin Portfolio Associates Assessment

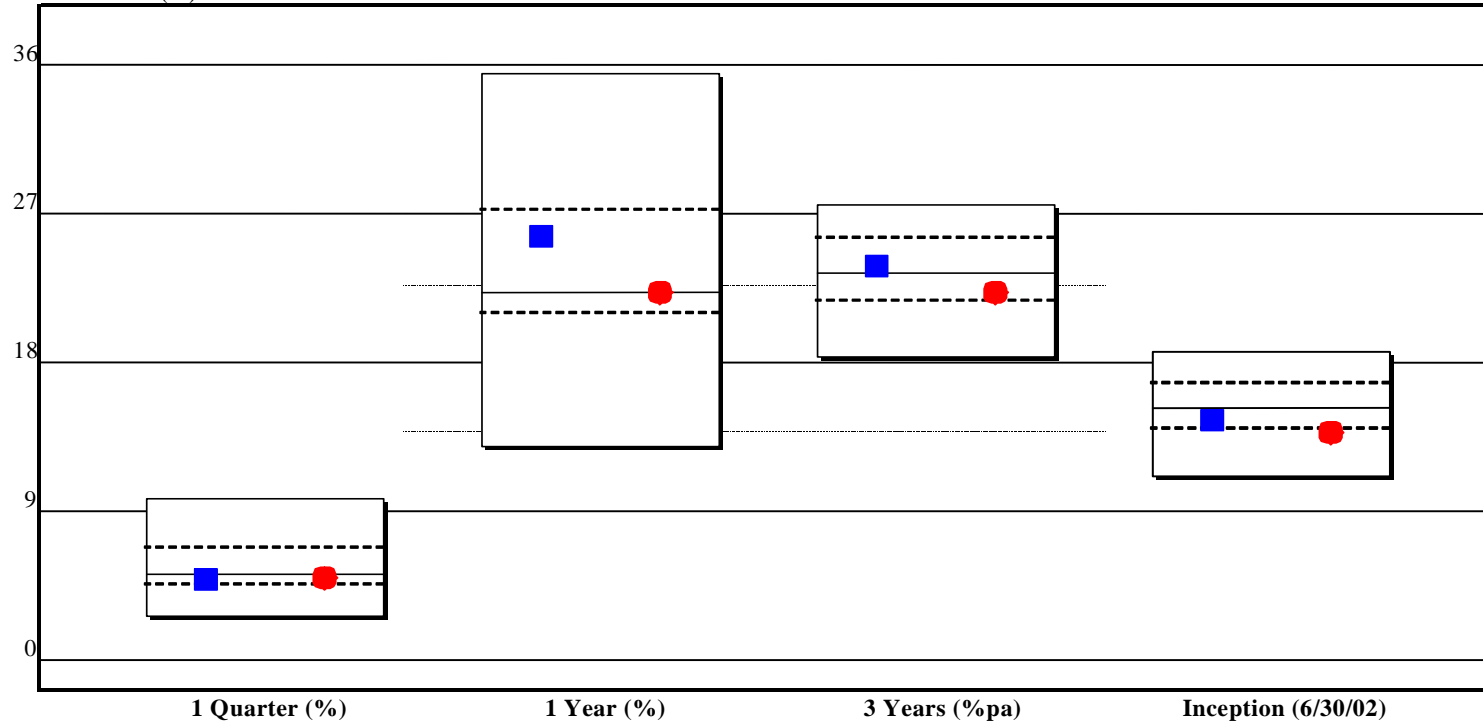
- Franklin Portfolio Associates outperformed the benchmark for the 3-year period and since inception. The portfolio underperformed the benchmark for the recent quarter and 1-year period.
- Mercer rates this product A (above average probability of outperformance).

# Wellington Management Company

## Comparison with the Mercer US Equity Mid Cap Core Universe

### Performance for periods ended September 2005

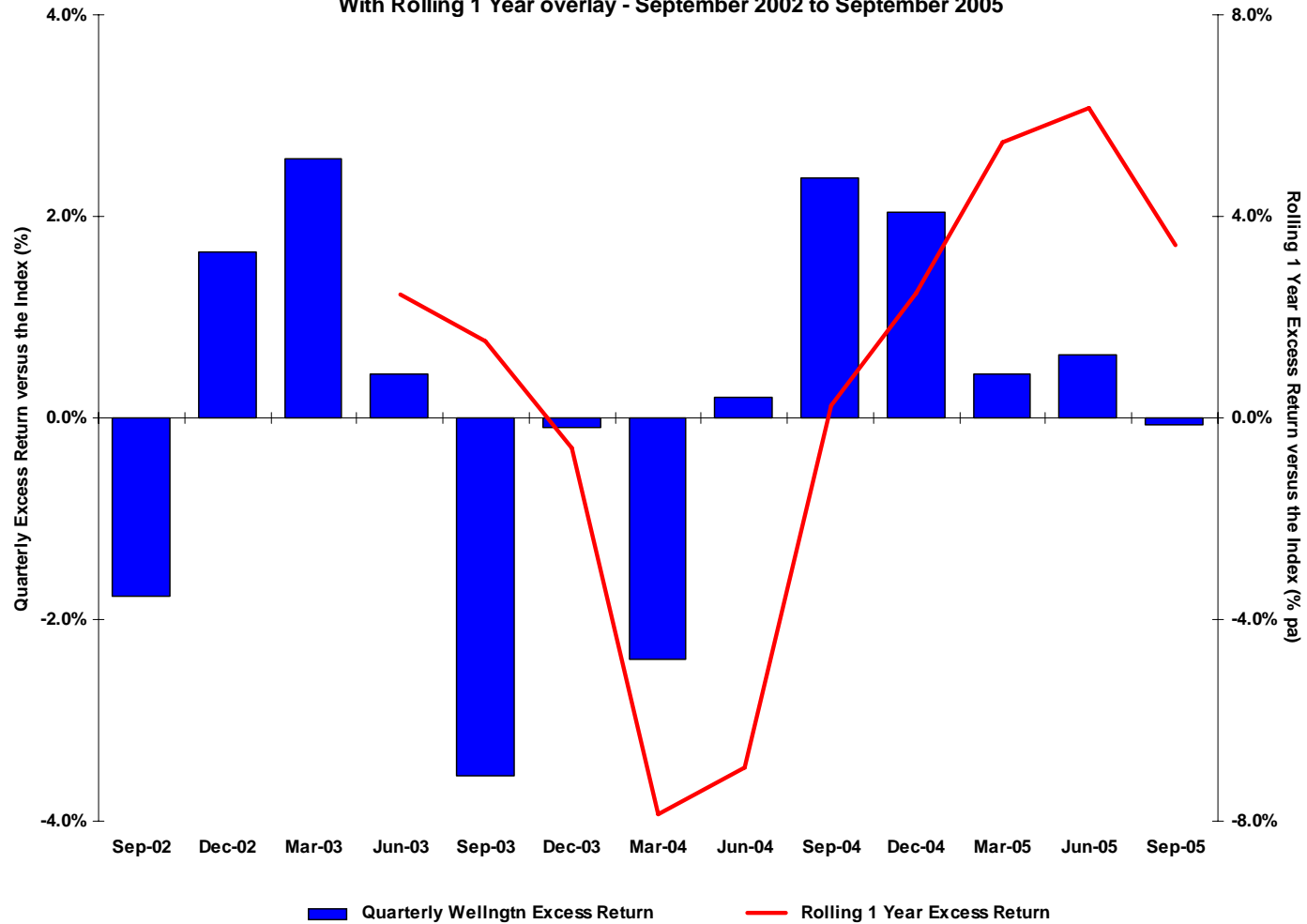
Rates of Return(%)



Wellington	■	4.8 (66)	25.6 (29)	23.8 (47)	14.4 (61)
S&PMID	●	4.9	22.2	22.1	13.8
5th Percentile		9.7	35.4	27.5	18.6
Upper Quartile		6.7	27.2	25.5	16.7
Median		5.2	22.1	23.4	15.2
Lower Quartile		4.5	20.9	21.7	13.9
95th Percentile		2.6	12.9	18.3	11.1
Number of Funds		54	51	45	44

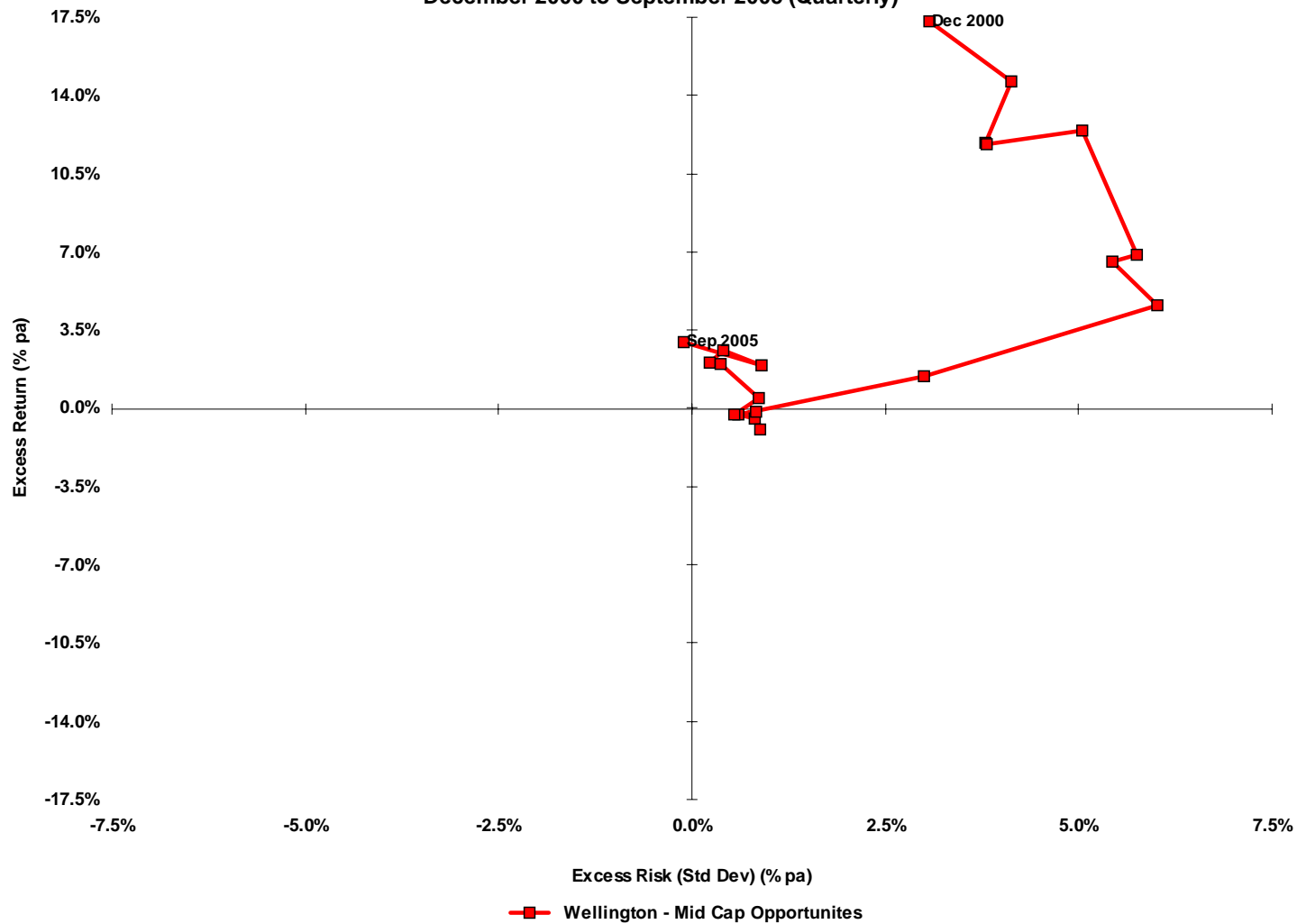
# Wellington Management Company

Quarterly Excess Return for Wellngtn versus the S&P Midcap 400  
With Rolling 1 Year overlay - September 2002 to September 2005



# Wellington - Mid Cap Opportunites

Rolling 3 Year Risk / Return versus the S&P Midcap 400  
December 2000 to September 2005 (Quarterly)

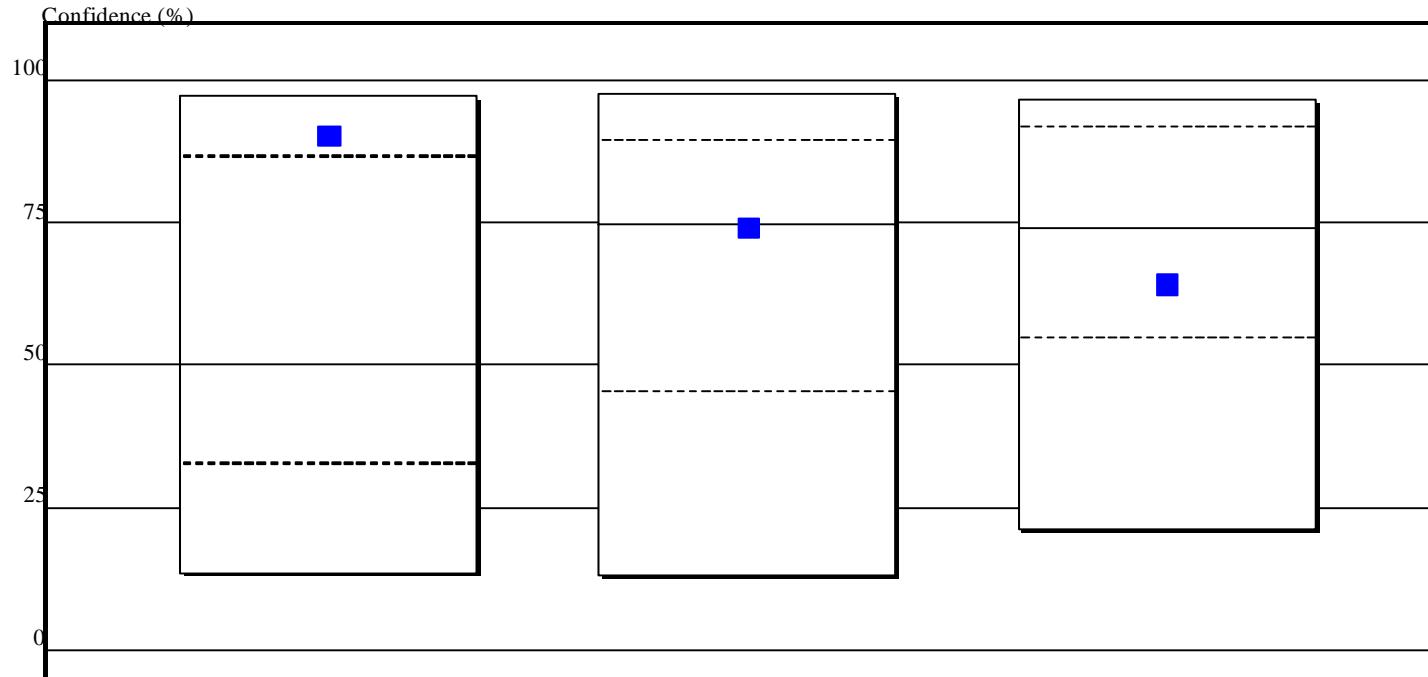


Composite data shown

# Wellington Management Company

## Comparison with the Mercer US Equity Mid Cap Core Universe

### Confidence of Value Added for periods ended September 2005



	1 Year	3 Years	Inception (6/30/02)
Wellngtn ■	90.3 (21)	74.1 (50)	64.1 (65)
5th Percentile	97.1	97.5	96.4
Upper Quartile	86.3	89.3	91.6
Median	50.3	74.4	74.0
Lower Quartile	32.4	45.1	54.6
95th Percentile	13.1	12.8	21.0
Number of Funds	51	45	44

# Wellington Management

## Attribution Analysis

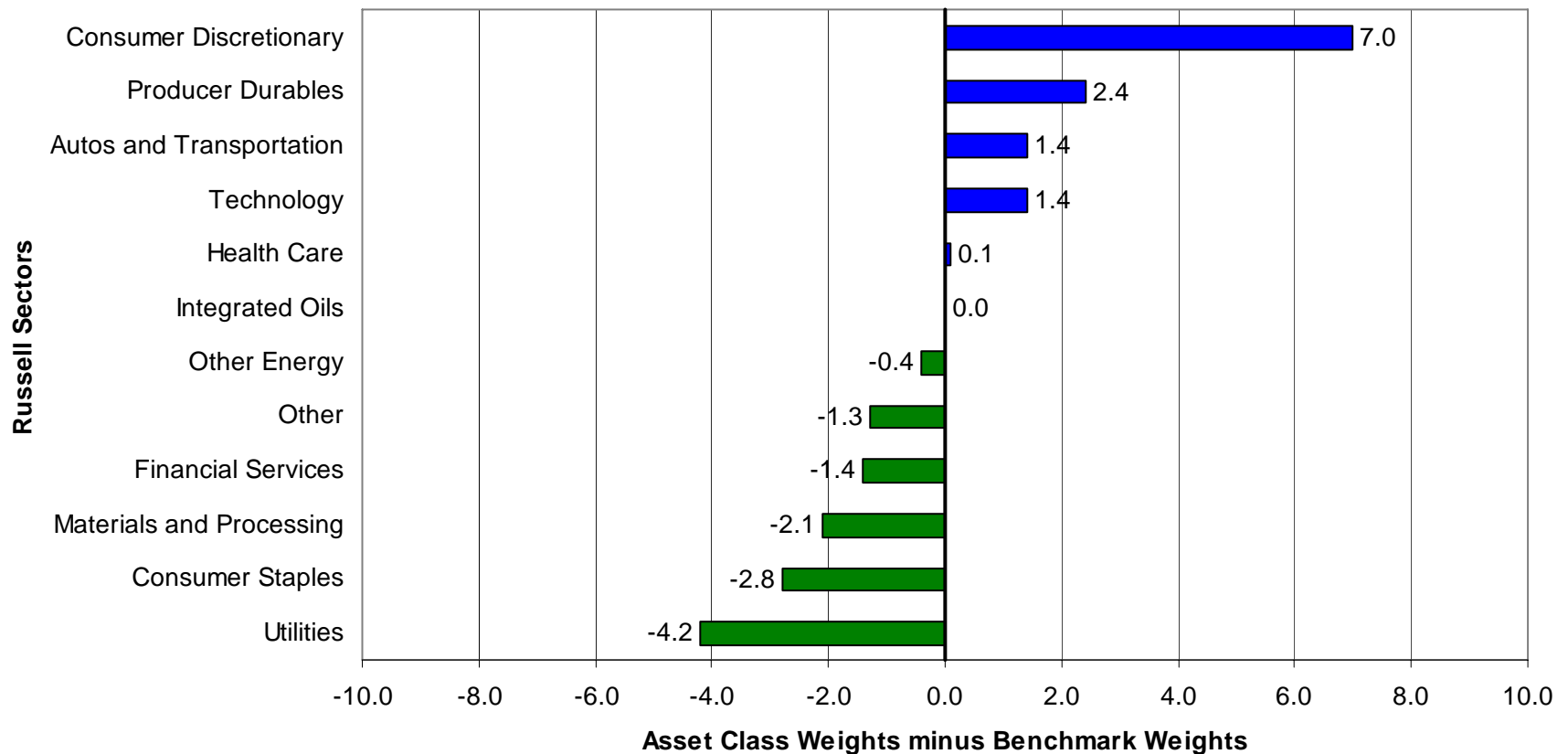
Period Ending September 30, 2005

	Quarter	1 Year	3 Years	5 Years	Inception
Stock Selection	23	622	368	---	217
Sector Selection	-16	-207	-126	---	-84
Other	0	0	0	---	0
Fees	-15	-70	-70	---	-65
Excess Return	-8	345	172	---	68

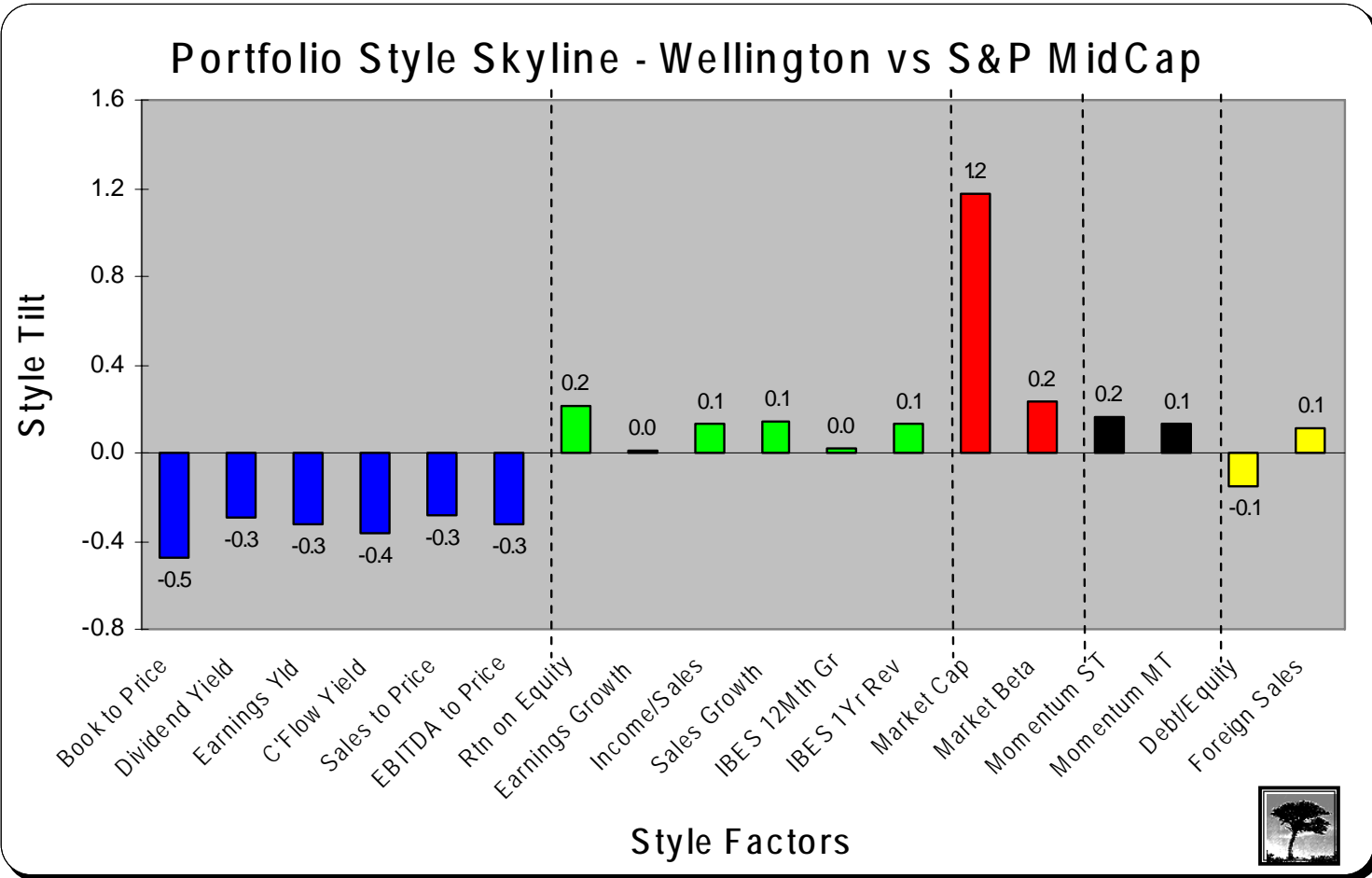
# Wellington Management

## Style Analysis: Economic Sectors

As of September 30, 2005



# Wellington Management



# Wellington Management Organizational Issues

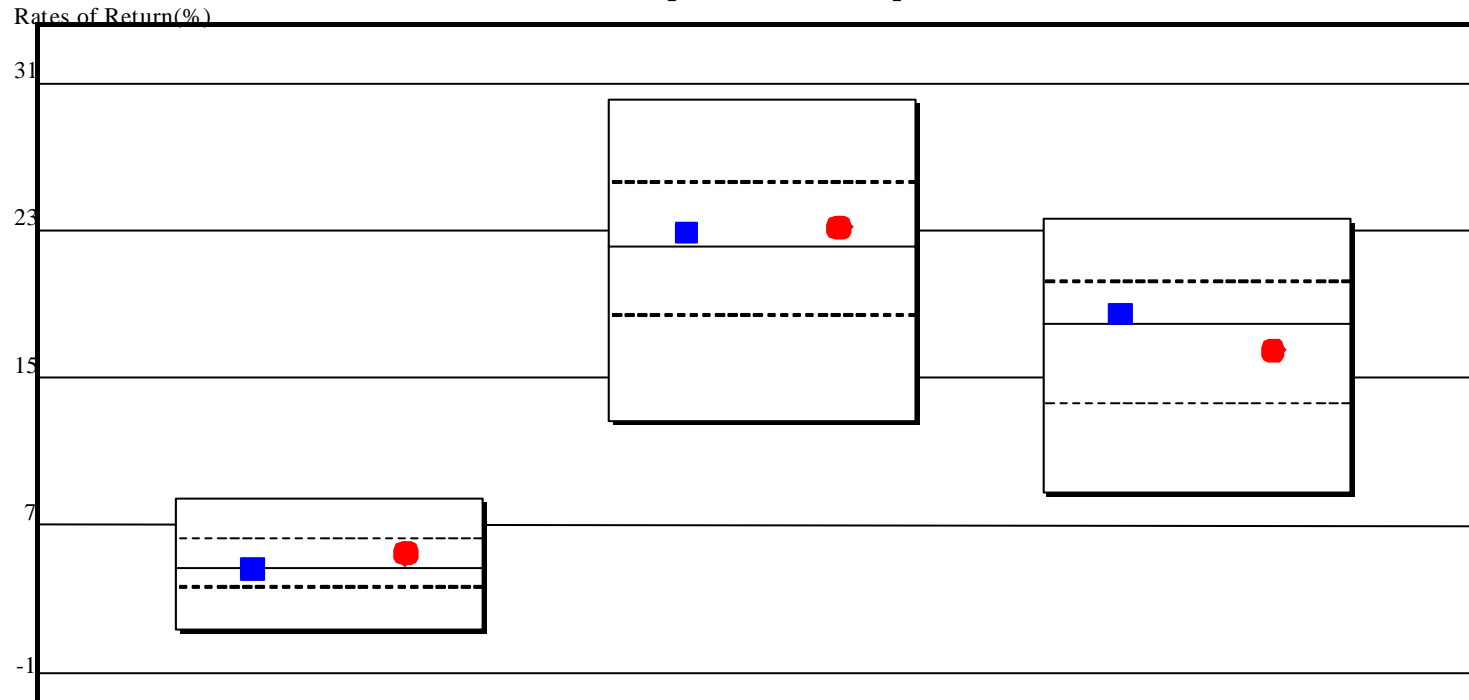
- No organization concerns at this time.

# Wellington Management Assessment

- Wellington outperformed its benchmark and the universe median for all periods evaluated except the recent quarter.
- Mercer rates this product A (above average probability of outperformance).

# Cramer Rosenthal McGlynn

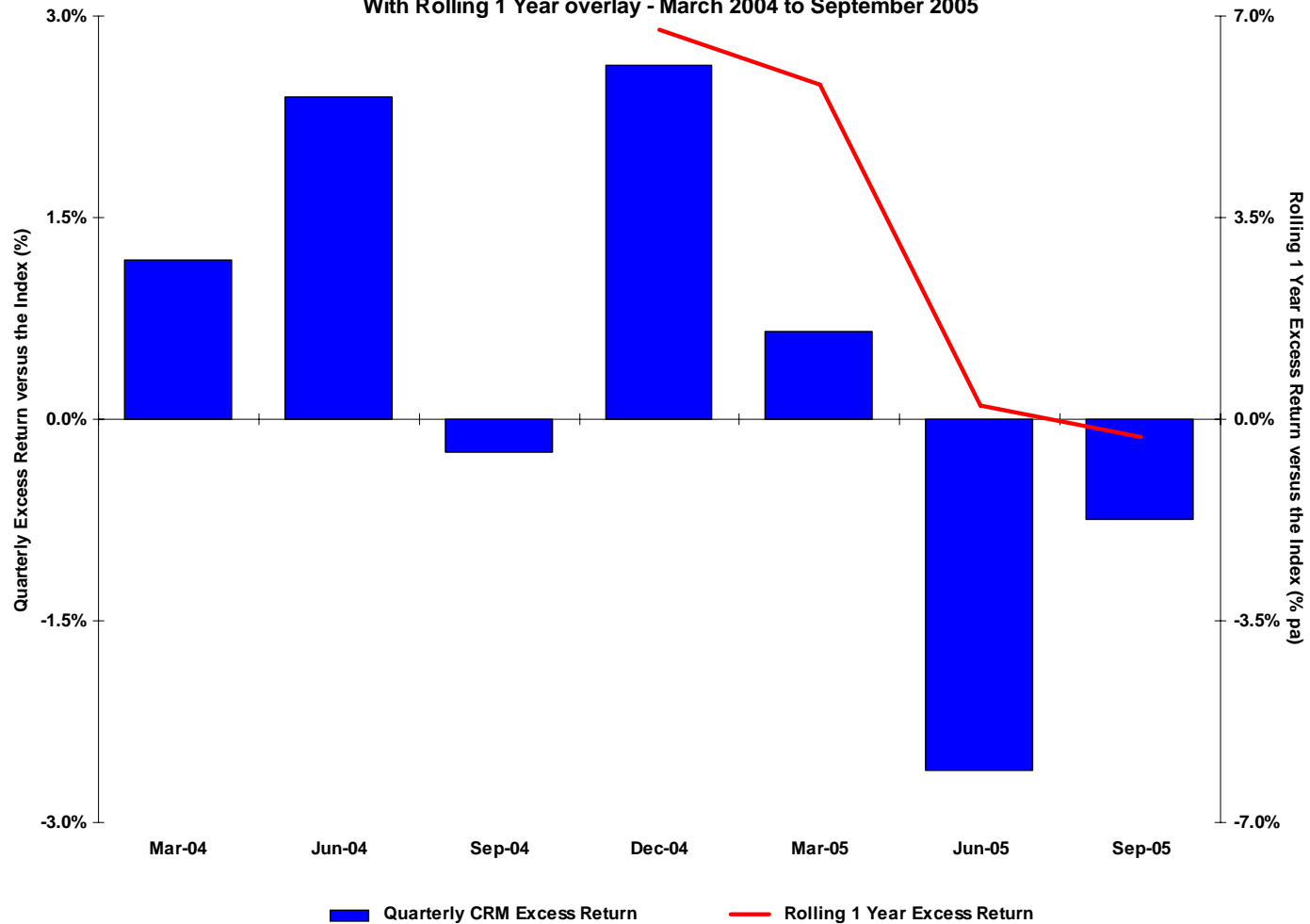
Comparison with the Mercer US Equity Mid Cap Value Universe  
Performance for periods ended September 2005



	1 Quarter (%)	1 Year (%)	Inception (12/31/03)
CRM	4.7	22.9	18.4
S&PMV	5.4 (49)	23.2 (43)	16.5 (46)
5th Percentile	8.3	30.1	23.6
Upper Quartile	6.2	25.6	20.1
Median	4.6	22.1	17.8
Lower Quartile	3.5	18.3	13.6
95th Percentile	1.3	12.5	8.8
Number of Funds	95	92	89

# Cramer Rosenthal McGlynn

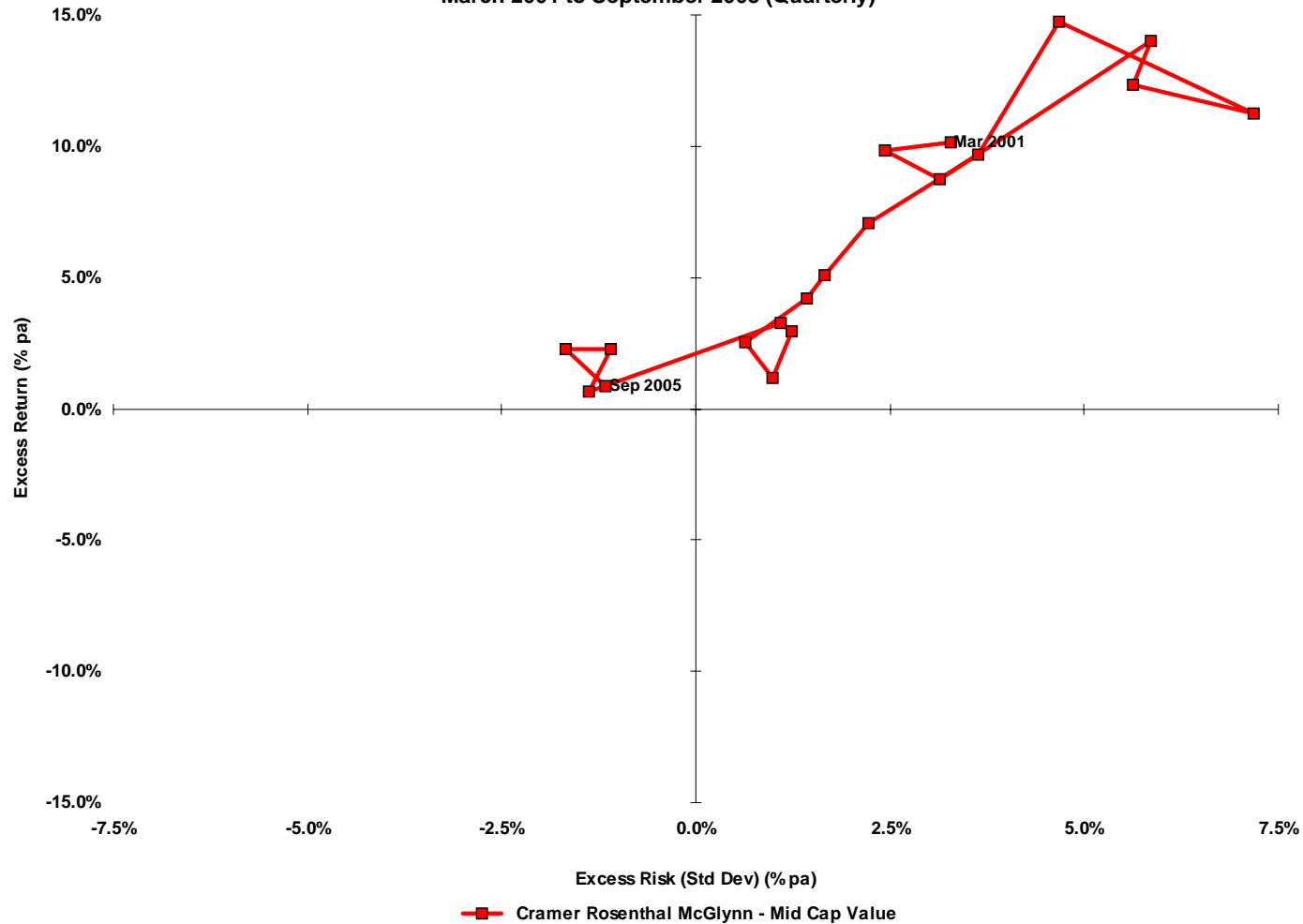
Quarterly Excess Return for CRM versus the S&P/BARRA Mid Cap Value  
With Rolling 1 Year overlay - March 2004 to September 2005



# Cramer Rosenthal McGlynn - Mid Cap Value

Rolling 3 Year Risk / Return versus the S&P/BARRA Mid Cap Value

March 2001 to September 2005 (Quarterly)



Composite data shown

# Cramer Rosenthal McGlynn

## Attribution Analysis

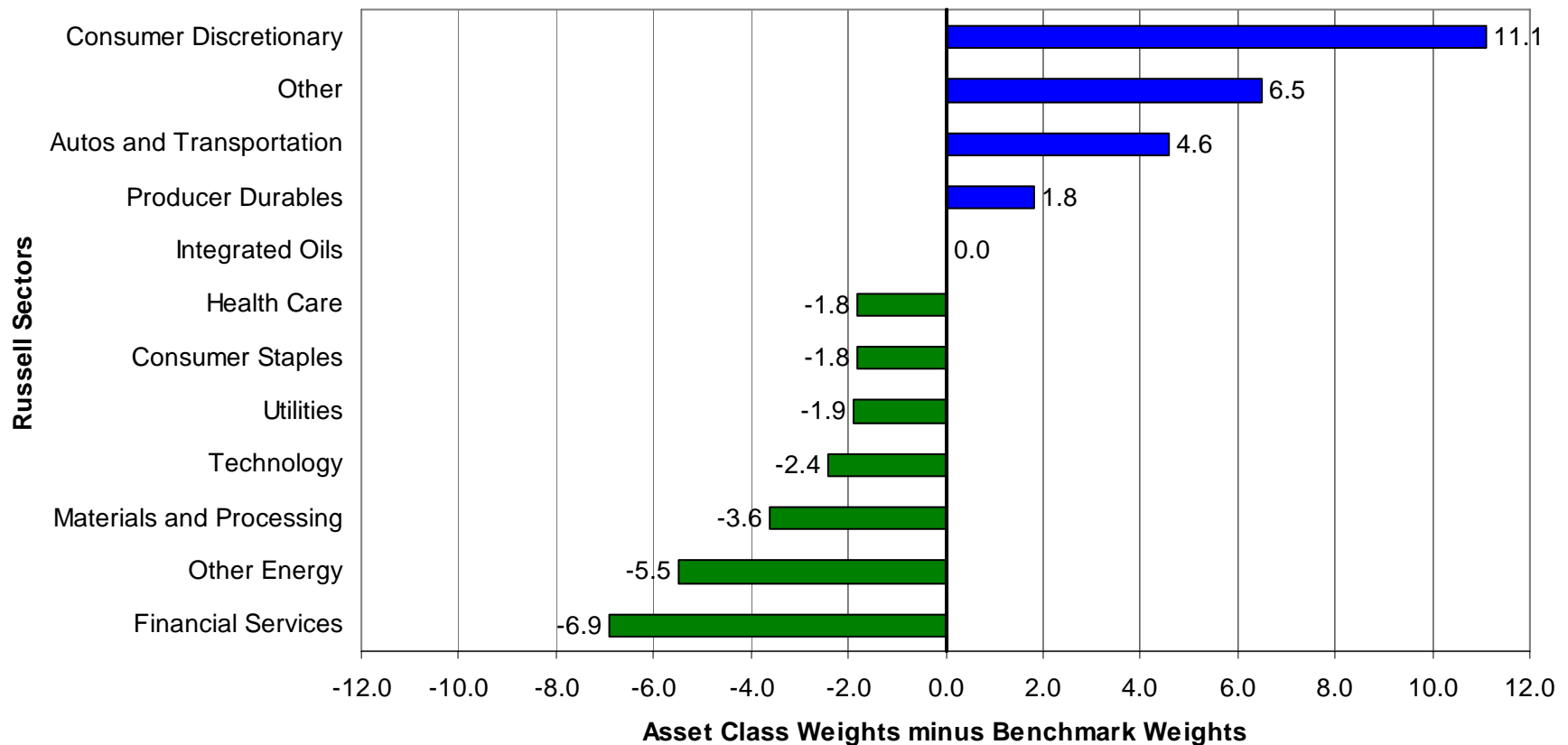
Period Ending September 30, 2005

	Quarter	1 Year	3 Years	5 Years	Inception
Stock Selection	179	158	---	---	486
Sector Selection	-239	-137	---	---	-234
Other	0	0	---	---	0
Fees	-14	-54	---	---	-54
Excess Return	-74	-33	---	---	198

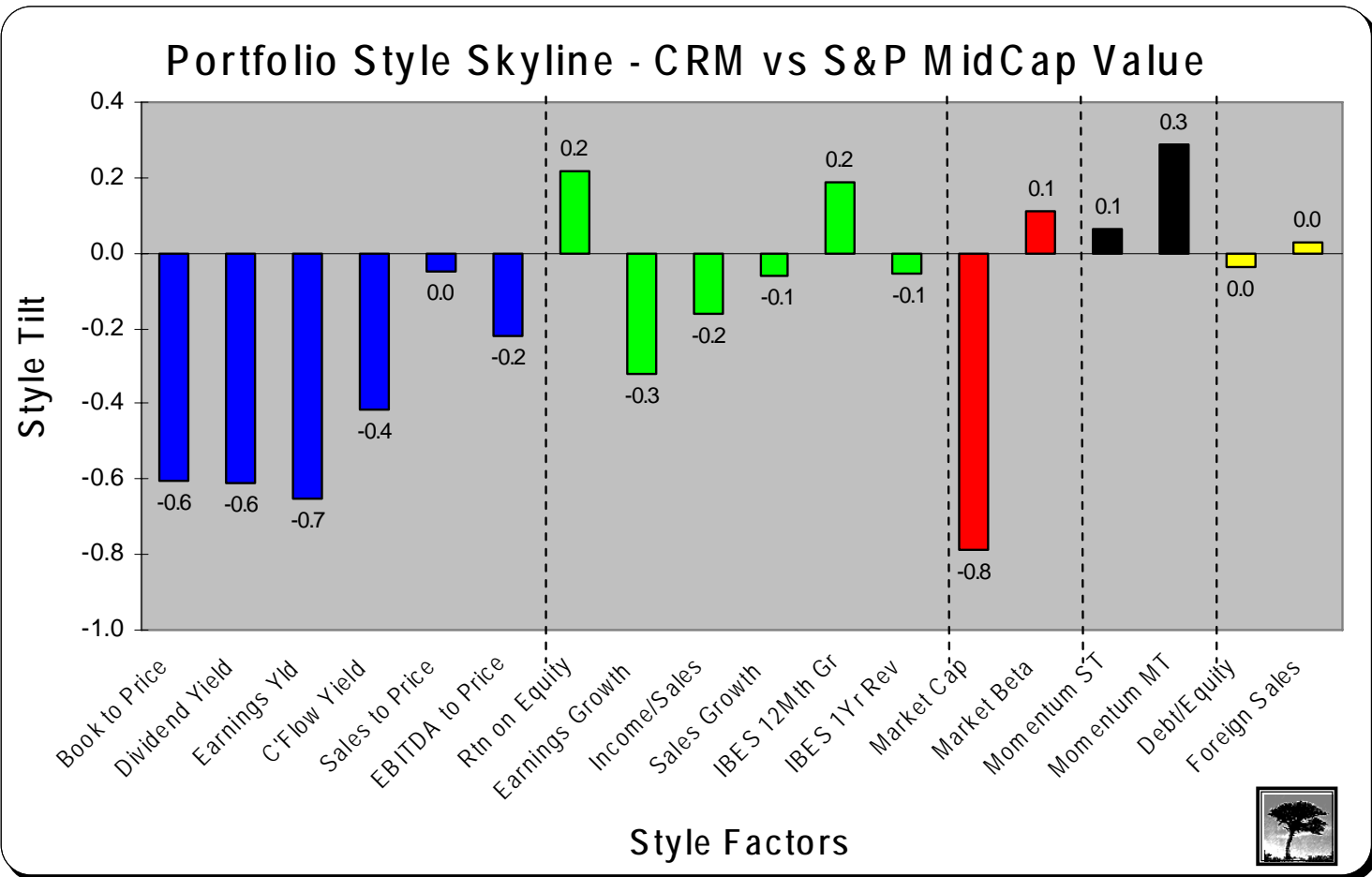
# Cramer Rosenthal McGlynn

## Style Analysis: Economic Sectors

As of September 30, 2005



# Cramer Rosenthal McGlynn



# Cramer Rosenthal McGlynn

- No organization concerns at this time.

# Cramer Rosenthal McGlynn Assessment

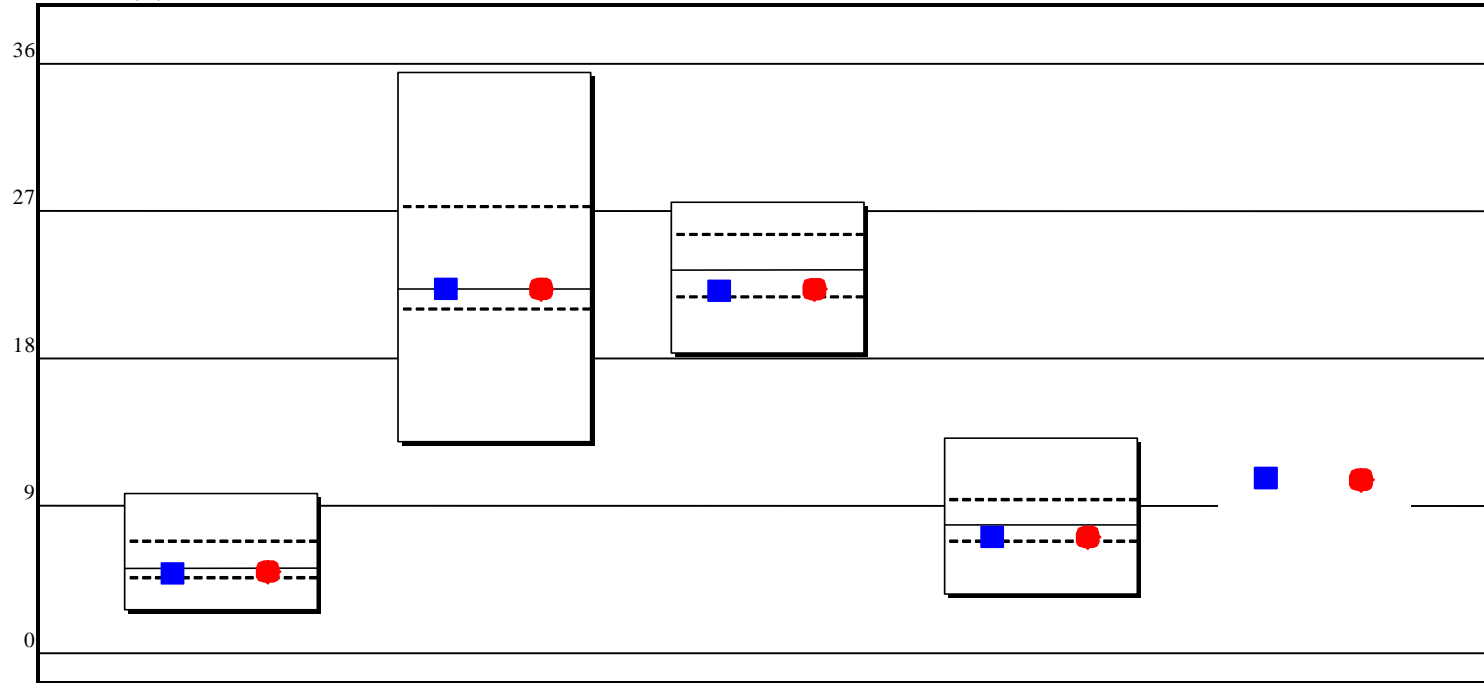
- CRM underperformed its benchmark for all periods except since inception. The portfolio placed above the universe median for the recent quarter and 1 year.
- Mercer rates this product A (above average probability of outperformance).

# State Street Global Advisors

## Comparison with the Mercer US Equity Mid Cap Core Universe

### Performance for periods ended September 2005

Rates of Return(%)



1 Quarter (%)

1 Year (%)

3 Years (%pa)

5 Years (%pa)

Inception (1/31/00)

State Street  
S&P MID

4.9 (64)  
4.9

22.2 (49)  
22.2

22.1 (70)  
22.1

7.1 (69)  
7.1

10.7 (46)  
10.6

5th Percentile  
Upper Quartile  
Median  
Lower Quartile  
95th Percentile

9.7  
6.7  
5.2  
4.5  
2.6

35.4  
27.2  
22.1  
20.9  
12.9

27.5  
25.5  
23.4  
21.7  
18.3

13.1  
9.3  
7.8  
6.7  
3.6

Number of Funds

54

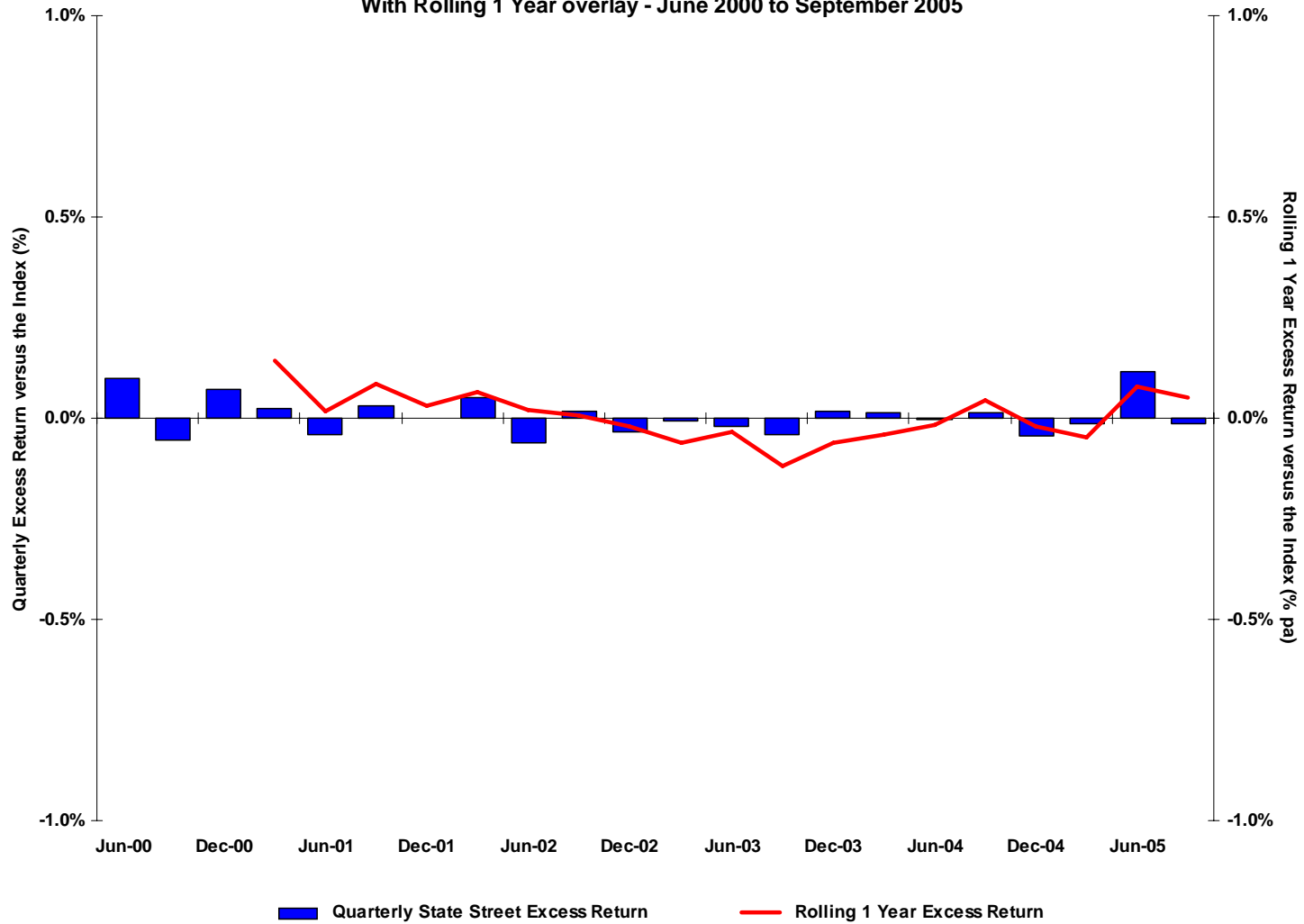
51

45

37

# State Street Global Advisors

Quarterly Excess Return for State Street versus the S&P Midcap 400  
With Rolling 1 Year overlay - June 2000 to September 2005



# State Street Global Advisors

## Organizational Issues

- No organization concerns at this time.

# State Street Global Advisors Assessment

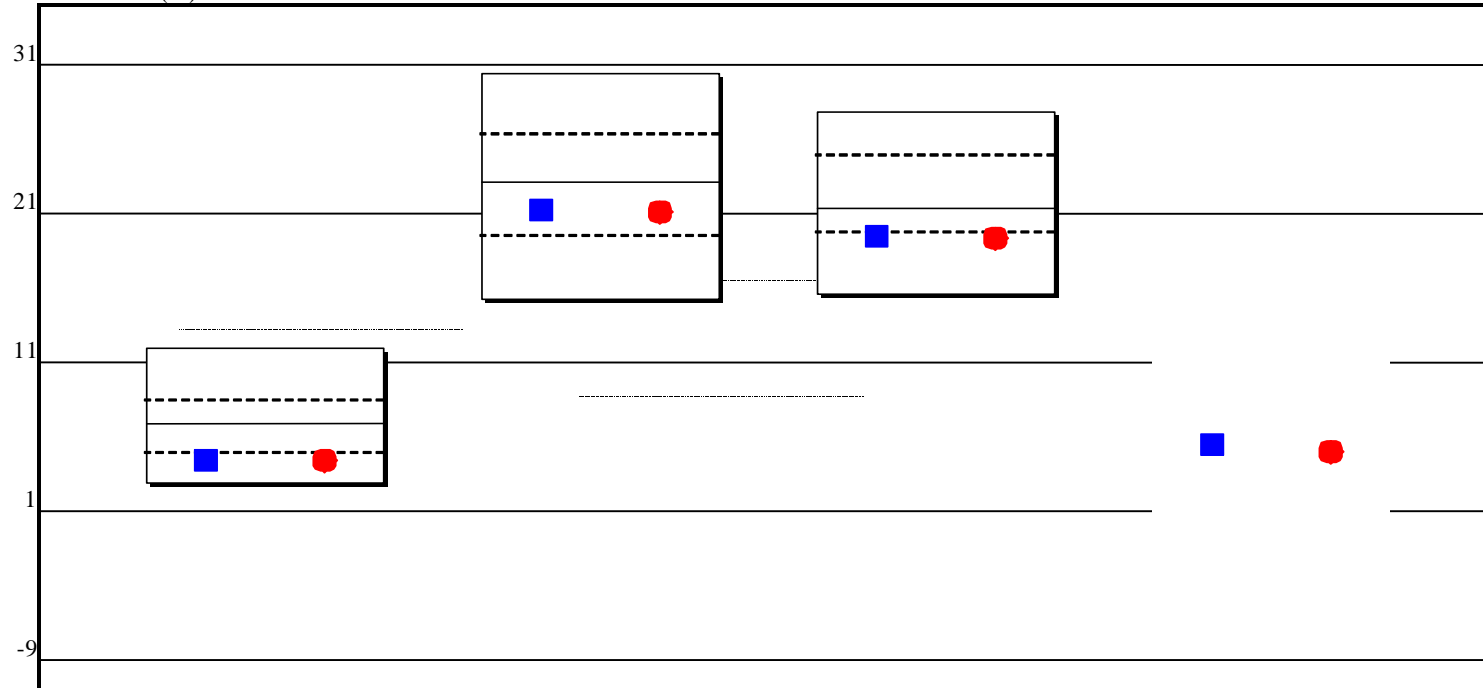
- State Street is tracking the S&P MidCap 400 Index as expected.
- Mercer does not rate this product.

# Arizona State Retirement System E3

## Comparison with the Mercer US Equity Mid Cap Growth Universe

### Performance for periods ended September 2005

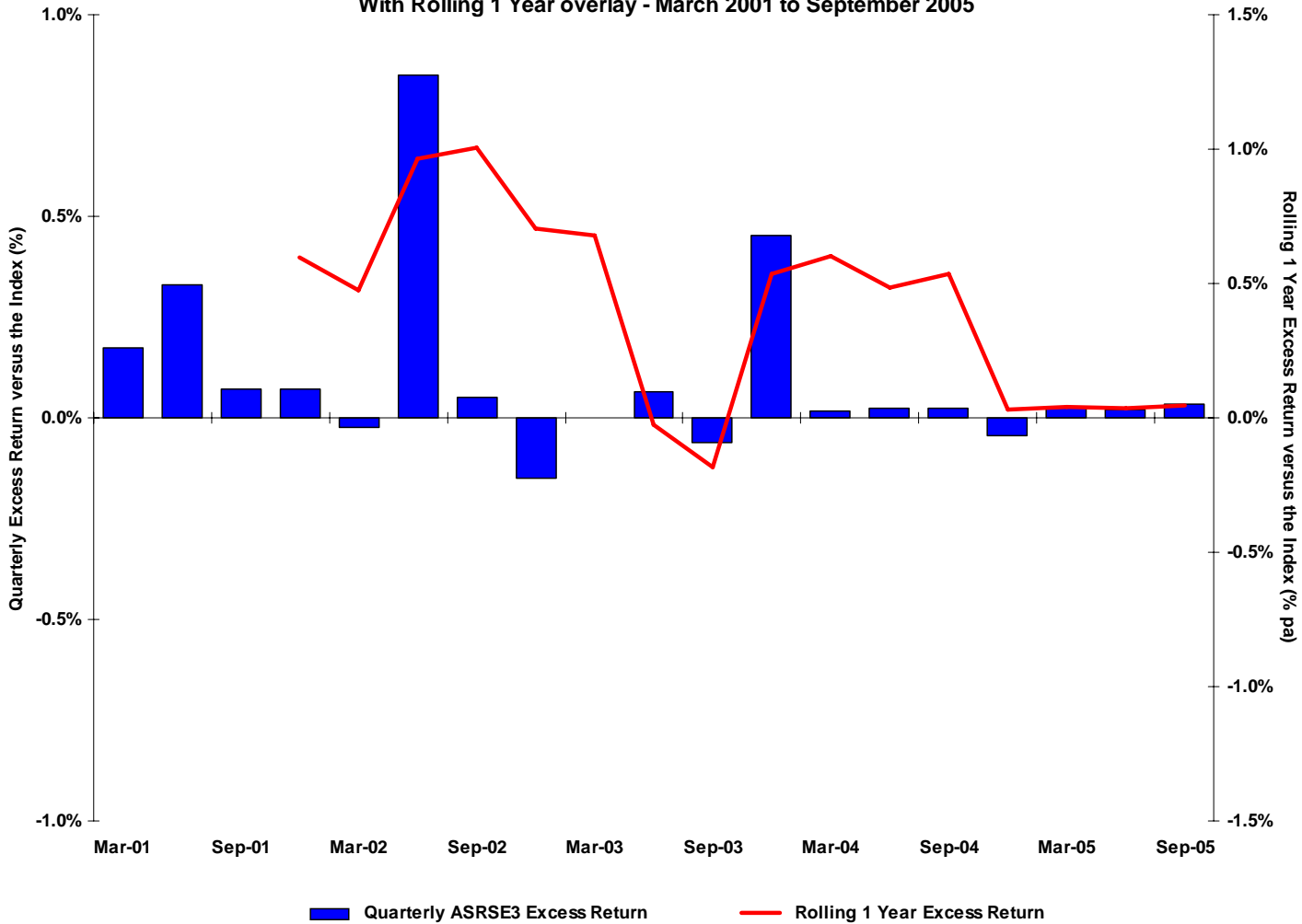
Rates of Return(%)



	1 Quarter (%)	1 Year (%)	3 Years (%pa)	Inception (11/30/00)
ASRSE3	4.4 (82)	21.2 (62)	19.4 (77)	5.4 (26)
S&PMG	4.4	21.1	19.3	4.9
5th Percentile	11.9	30.3	27.8	
Upper Quartile	8.3	26.2	24.8	
Median	6.8	23.1	21.3	
Lower Quartile	4.8	19.4	19.7	
95th Percentile	2.7	15.1	15.5	
Number of Funds	104	101	97	

# Arizona State Retirement System E3

Quarterly Excess Return for ASRSE3 versus the S&P/BARRA Mid Cap Growth  
With Rolling 1 Year overlay - March 2001 to September 2005



# Arizona State Retirement System E3 Assessment

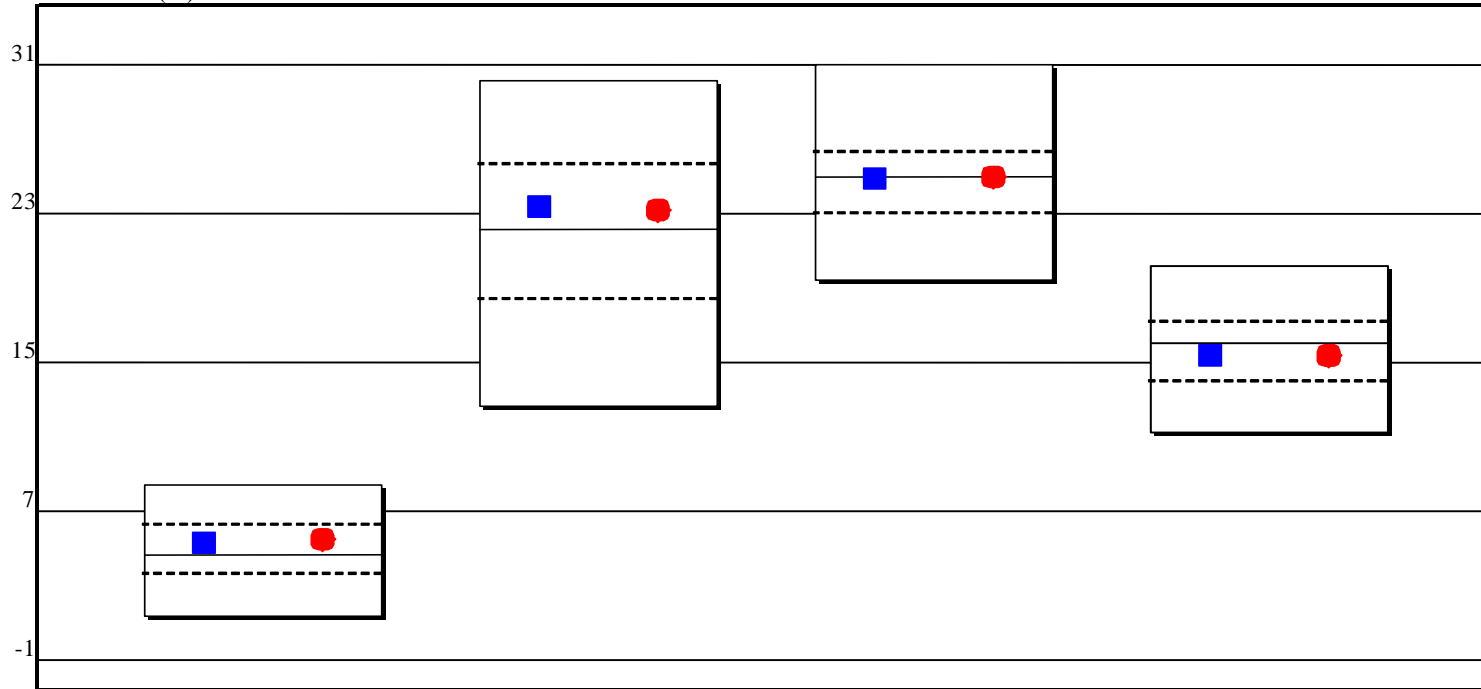
- The ASRS E3 portfolio has tracked the S&P MidCap Growth closely for all periods evaluated.

# Arizona State Retirement System E4

## Comparison with the Mercer US Equity Mid Cap Value Universe

### Performance for periods ended September 2005

Rates of Return(%)



1 Quarter (%)

1 Year (%)

3 Years (%pa)

Inception (6/30/02)

ASRS E4 ■  
S&PMV ●

5.3 (39)  
5.4

23.3 (40)  
23.2

24.9 (51)  
24.9

15.3 (58)  
15.3

5th Percentile  
Upper Quartile  
Median  
Lower Quartile  
95th Percentile  
Number of Funds

8.3  
6.2  
4.6  
3.5  
1.3  
95

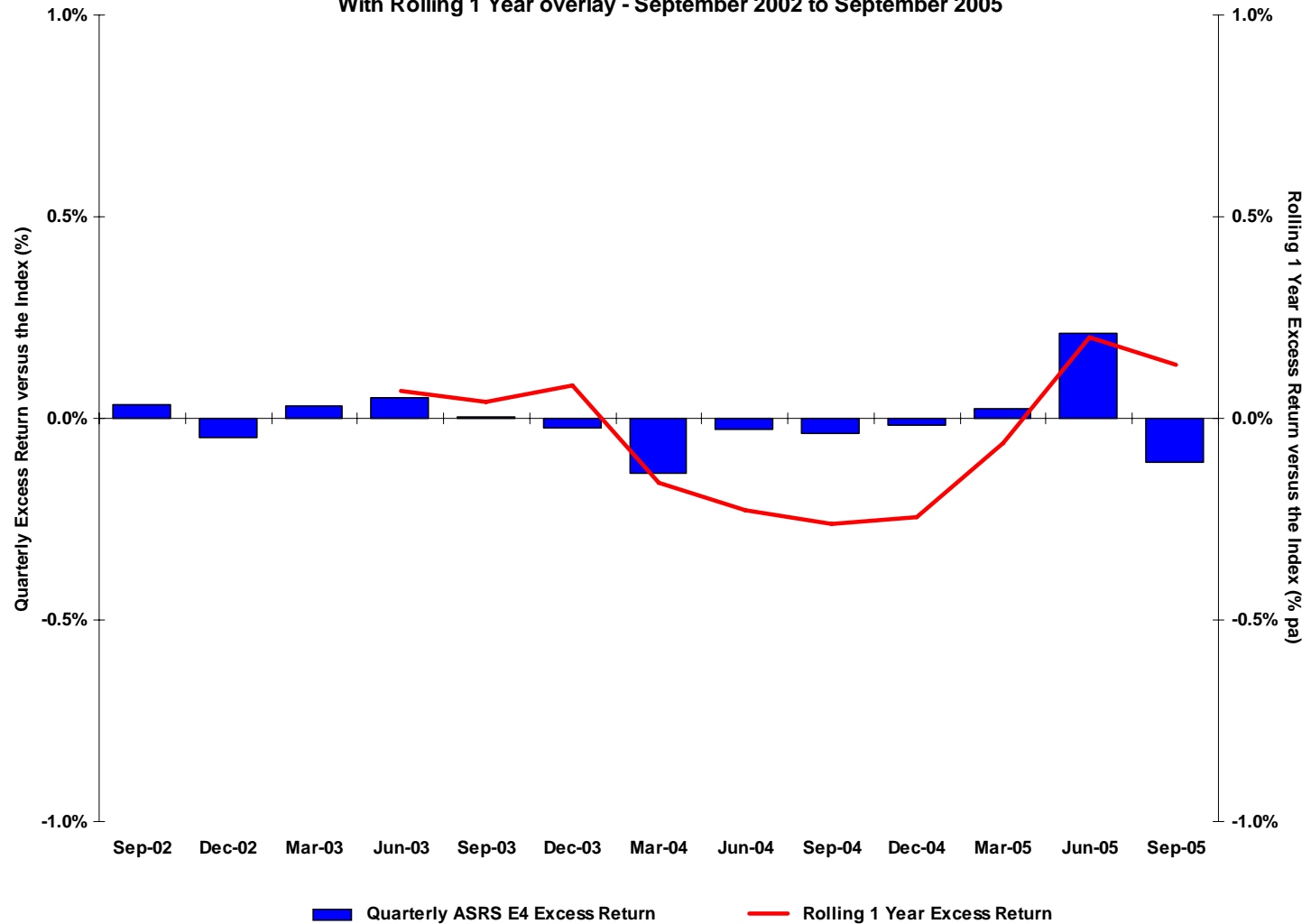
30.1  
25.6  
22.1  
18.3  
12.5  
92

30.9  
26.3  
25.0  
22.9  
19.3  
81

20.1  
17.1  
15.9  
13.9  
11.2  
80

# Arizona State Retirement System E4

Quarterly Excess Return for ASRS E4 versus the S&P/BARRA Mid Cap Value  
With Rolling 1 Year overlay - September 2002 to September 2005



# Arizona State Retirement System E4 Assessment

- The ASRS E4 portfolio has tracked the S&P MidCap Value closely for all periods evaluated.

# Mercer Ratings Scale

A, A- = Above average probability of outperformance

B+, B, B- = Average probability of outperformance

C = Below average probability of outperformance

N = Not rated

## What Do the Ratings Mean?

- Mercer's view on prospective future performance relative to benchmark over the medium term (3 to 5 yrs)
- Relative to risk of underperforming benchmark
- May or may not be in keeping with past performance